CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Police and Fire Department Retirement Plan

Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

Pension Trust and Postemployment Healthcare Trust Funds of the City of San José, California

City of San José
Police and Fire Department
Retirement Plan

Roberto L. Peña
Director

Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

Pension Trust and Postemployment Healthcare Trust Funds
of the City of San José, California

Department of Retirement Services
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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

November 24, 2014

The Honorable Mayor and City Council
Members of the Police and Fire Department Retirement Plan
City of San José
San José, California

Dear Mayor, Council Members, and Plan Members:

The Plan earned a time-weighted gross of investment fees rate of return of 13.9% and net of investment fees rate of return of 13.5% on investments for the fiscal year, compared to a 14.6% return for its policy benchmark and a 16.4% return for the InvestorForce Public Defined Benefits Funds Median (IFPDB). In contrast, the net rate of return assumed by the Plan's actuary for fiscal year 2013-14 was 7.125%. Additionally, the Plan earned a time-weighted gross of investment fees rate of return of 7.8% and 11.1% for the three-year and five-year periods ending June 30, 2014, respectively, while the IFPDB Public Funds Median earned a time-weighted rate of return of 9.6% and 12.7% for the same periods. The net asset value of the Plan increased from $2,864,244,000 to $3,265,815,000, net of pending purchases and sales (see the Financial Section beginning on page 21). The net increase in Plan assets for fiscal year 2013-2014 was $401,571,000.

During fiscal year 2013-14, the Board continued to implement changes in its governance structure. The Board engaged governance consultant, Cortex Applied Research, to develop policies, charters relating to roles and responsibilities of the Board, its committees and staff, staffing structure, strategic planning, education and training, and communications protocol. A culmination of the reforms resulted in a ballot measure for the November 2014 elections to improve board governance by providing the Retirement Board with more autonomy.

The Plan along with the Board of Administration for the Federated City Employees' Retirement System concluded the nationwide search for a Chief Investment Officer (CIO) with the hiring of Arn Andrews in March 2014. Mr. Andrews previously served as the Assistant Director of Finance for the City of San José and prior to that spent 15 years in the financial markets industry. In addition, the Investment Program hired a Retirement Investment Officer during the fiscal year and another in September 2014. The Investment Program also added an additional operational position which was subsequently filled. With the aforementioned staffing additions, the Investment Program is well poised for 2015.

During fiscal year 2013-2014, the Investment Program completed an asset allocation review and liquidity analysis of the Plan resulting in a new asset allocation which decreased allocation to fixed income strategies, increased allocation to equity strategies and absolute return strategies. The Investment Program hired two hedge fund managers, made investments with global equity, private equity and real estate managers. A comprehensive review of hedge fund strategies was conducted resulting in strategies being reclassified to the asset allocation they are better aligned with. The Investment Program continued to move forward with researching and preparing for the eventual procurement of a risk management system.

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The Board believes that the professional services rendered by the staff, the auditors, investment consultant, actuary, and counsel have produced a sound fund capable of sustained growth over the long term. The Board of Administration and its staff are available to provide additional information as requested.

Sincerely,

Sean Kaldor, Chairman

Board of Administration

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Introductory Section

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

November 24, 2014

Board of Administration
Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San José, CA 95112

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2014. Responsibility for both the accuracy of the data, the completeness and fairness of the presentation, including all disclosures, rests with the Plan's management.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). GASB Statement No. 67*, Financial Reporting for Pension Plans — an Amendment of GASB Statement No. 25*, which was adopted during this fiscal year, addresses accounting and financial reporting for requirements for pension plans. Transactions of the Plan are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the Plan for the fiscal years ended 2013 and 2014 refer to the Management's Discussion and Analysis on page 26.

Macias Gini & O'Connell LLP, the Plan's independent auditor, has audited the accompanying financial statements. Because the cost of a control should not exceed the benefits to be derived, management believes internal control is adequate and, the accompanying statements, schedules, and tables are fairly presented and free from material misstatement. Sufficient internal controls over financial reporting exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The financial audit provides reasonable assurance that the Plan's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The Plan recognizes that even sound and well-designed internal controls have their inherent limitations in that errors may still occur as a result of factors such as carelessness, faulty judgment, communication breakdowns, and/or that internal controls can be circumvented by internal or external collusion. The Plan continuously reviews internal controls to ensure that the Plan's operating policies and procedures are being adhered to, that the controls are adequate to ensure accurate, reliable financial reporting and to safeguard the Plan's assets.

I am proud to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. This report satisfies both generally accepted accounting principles and applicable legal requirements. We believe this report continues to conform to the Certificate of Achievement Program

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Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2014. The Plan also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

I encourage you to review this report carefully. I trust that you and the members of the Plan will find this CAFR helpful in understanding the Plan.

Funding

The Plan's funding objective for both its defined benefit pension plan and its defined benefit other post-employment benefits (OPEB) healthcare plan is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2013, the plan net position of the defined benefit pension plan was 77.5% of the total pension liability and the funded status of the defined benefit OPEB plan was 10.7% based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the Plan is currently 7.125% and 6.00%, respectively. The impact of the difference between the actual net rate of return earned by the Plan and the 7.125% and 6.00% assumptions will result in an investment gain or loss that will be reflected in the pension and OPEB liabilities in next year's CAFR. The net increase in Plan net position for fiscal year 2013-2014 was $401,571,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Positions on page 38. The employer's net pension liability is presented on page 62 and the defined benefit OPEB plan's funding progress is presented on page 65.

Financial and Economic Summary

The year was largely dominated by headline risks related to Federal Reserve policy, the economic and political environment in the Eurozone, partisan politics within the U.S., and reports of slowed economic growth in emerging markets and China in particular. However fiscal year 2013-2014, saw financial markets post strong returns for investors who sought risk despite the myriad of macroeconomic concerns.

Domestic equities closed out the first half of the fiscal year very strongly, with market participants citing improving fundamentals and an unabated continuation of quantitative easing, which resulted in strong gains despite uncertainty surrounding the U.S. government shutdown. The first half of the fiscal year also saw increases in real interest rates and a reduction in global liquidity which stoked fears of a slowdown in emerging markets, specifically fears of slower growth in China that could reduce export demand from other emerging economies. The third quarter of fiscal year 2013-2014, showed signs of improved growth in both developed and emerging markets, as developed areas of the world were expected to have higher growth than the previous ten years, and emerging markets expected higher growth than developed markets.

The fourth fiscal quarter saw the continuation of a multi-year valuation expansion in growth assets. Domestic equities, as measured by the S&P 500 Index, posted its sixth consecutive quarterly rise, the longest streak since 1998. Emerging markets continued its recovery as investors dismissed balance of payments concerns, fixed income investments rallied with interest rate and credit assets benefiting from historically low interest rate policies.

As we look towards fiscal year 2014-2015, the U.S. economy has shown signs of improvement during the fiscal year 2013-2014, with GDP growth improving and unemployment declining. Continued stabilization in the world's largest economy should lead to improvements in employment and growth domestically, as well as increased demand for goods and services from abroad. However, geopolitical tensions from a continuation of global conflicts should continue to add volatility in the world financial markets.

Investment Summary

The Board of Administration has exclusive control of all investments of the Plan and is responsible for the establishment of investment objectives, strategies, and policies. Members of the Board serve in a fiduciary capacity, discharge their duties with respect to the Plan and the investment portfolio solely in the interest of, for the exclusive purposes of providing benefits to, members of the Plan and defraying the reasonable cost of administration.

Over the past fiscal year, the Plan's time-weighted gross of investment fees rate of return was 13.9% and net of investment fees rate of return was 13.5%, compared to a 14.6% return for its policy benchmark and a 16.4% return for the InvestorForce Public Defined Benefits Funds Median (IFPDB). Additionally, the Plan earned a time-weighted gross of investment fees rate of return of 7.8% and 11.1% for the three-year and five-year periods ending June 30, 2014, respectively, while the IFPDB Public Funds Median earned a time-weighted rate of return of 9.6% and 12.7% for the same periods. The net asset value of the Plan increased from $2,864,244,000 to $3,265,815,000, net of pending purchases and sales (see the Financial Section beginning on page 21).

Major Initiatives

The Board continued implementation of its new governance structure. The Board hired a governance consultant to develop policies and charters relating to roles and responsibilities of the Board, its committees and staff, staffing structure, strategic planning, education and training, and communications protocol. A culmination of the reforms resulted in a ballot measure for the November 2014 elections to improve board governance by providing the Retirement Board with more autonomy.

The Plan along with the Board of Administration for the Federated City Employees' Retirement System concluded the nationwide search for a Chief Investment Officer (CIO) with the hiring of Arn Andrews in March 2014. Mr. Andrews previously served as the Assistant Director of Finance for the City of San José and prior to that spent 15 years in the financial markets industry. In addition, the Investment Program hired a Retirement Investment Officer during the fiscal year and another in September 2014. The Investment Program also added an additional operational position which was subsequently filled. With the aforementioned staffing additions, the Investment Program is well poised for 2015.

During fiscal year 2013-2014, the Investment Program completed an asset allocation review and liquidity analysis of the Plan, resulting in a new asset allocation which decreased allocation to fixed income strategies and increased allocation to equity strategies and absolute return strategies. The Investment Program hired two hedge fund managers and made investments with global equity, private equity and real estate managers. A comprehensive review of hedge fund strategies was conducted resulting in strategies being reclassified within the asset allocation with which they are better aligned. The Investment Program continued to move forward with researching and preparing for the eventual procurement of a risk management system.

During the fiscal year 2014, Police Tier 2 was implemented starting in August 2013, for employees hired, rehired, or reinstated. In addition, the City of San José eliminated the Supplemental Retirees Benefit Reserve (SRBR) effective first quarter of calendar year 2013, and the Board set the 2014-2015, contribution rates based on the 6/30/2013 valuations, excluding the SRBR.

City Administration introduced four-tier rate structures for the medical and dental plans for calendar year 2014. Department of Retirement Services (DRS) staff worked closely with the vendors to ensure the transition between the tiers was seamless to the members, while ensuring proper communication amongst all involved. DRS hosted two health fairs in an effort to accommodate space limitations onsite per the request of the Retiree Associations. Over 200 retirees attended the November health fairs, in which the importance of covering only eligible dependents under the health plans was highlighted.

DRS staff participated in the selection process of the health and welfare benefits consultant, personal accident insurance (AD&D) provider and the medical insurance providers for the City in conjunction with the City's Human Resources department and labor groups.

On June 26, 2013, in the case of United States v. Windsor, the United States Supreme Court held that Section 3 of the Defense of Marriage Act (DOMA) was unconstitutional because it violated the Fifth Amendment's guarantee of equal protection of laws as applied to persons of the same sex who are legally married under the laws of their state. The Supreme Court's ruling of Section 3 of the DOMA did not affect the design and administration of the DRS benefits programs and policies because DRS currently provide health coverage to same-sex spouses.

Conclusion

I would like to take this opportunity to thank the members of the Plan for their confidence in the Plan management during the past year. I also want to express my gratitude to the Board of Administration for its dedicated effort in supporting the staff through this past year. Finally, I would like to thank the City staff for their support and the consultants and DRS staff for their dedication, commitment to the Plan and for their diligent work to assure the Plan's continued successful operation.

Respectfully Submitted,

Roberto L. Peña

Roberto L. Peña
Director of Retirement Services

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Certificate of Achievement for Excellence in Financial Reporting

Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

San Jose Police and Fire
Department Retirement Plan
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Certificate of Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2013

Presented to

City of San Jose Police and Fire Department Retirement Plan

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

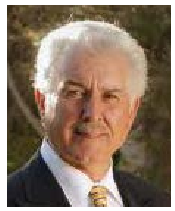
BOARD OF ADMINISTRATION

The Retirement Plan is administered by a nine-member Board of Administration composed of two City employees elected by members of the system, two Retired Plan members elected by the Retiree Associations, four public members, who are not connected with the City and have significant banking or investment experience, and another public member, who is selected by the eight Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San José Municipal Code.

As of June 30, 2014, the members of the Board were as follows:

SEAN KALDOR, CHAIR
Employee representative for the Fire Department appointed to the Board in May 2010. His current term expires November 30, 2015.

VINCENT SUNZERI, VICE CHAIR
Public member appointed to the Board in December 2010. His current term expires November 30, 2016.



RICHARD SANTOS, TRUSTEE
Retired Plan member appointed to the Board in February 2011. His current term expires November 30, 2014.

NICK MUYO, TRUSTEE
Retired Plan member appointed to the Board in November 2012. His current term expires November 30, 2016.

SEAN BILL, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2014.

Stephen Brennan, TRUSTEE
Public member appointed to the Board in April 2014. His current term expires November 30, 2018.

ANDREW LANZA, TRUSTEE
Public member appointed to the Board in April 2011. His current term expires April 30, 2015.

JAMES MASON, TRUSTEE
Employee representative for the Police Department appointed to the Board in May 2012. His current term expires November 30, 2017.

ELIZABETH ROUNDS, TRUSTEE
Public member appointed to the Board in September 2011. Her current term expires November 30, 2014.

PETE CONSTANT,
NON-VOTING BOARD MEMBER

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

ROBERTO L. PEÑA,
DIRECTOR OF RETIREMENT SERVICES

DONNA BUSSE,
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

ARN ANDREWS,
ASSISTANT DIRECTOR
CHIEF INVESTMENT OFFICER

STANDING PUBLIC MEETINGS

Board Meetings: First Thursday of the Month, 8:30 AM

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at http://sjretirement.com/PF/meetings/agendas.asp or they can be obtained from the retirement office at 1737 North First Street, Suite 600, San José, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

GENERAL & FIDUCIARY COUNSEL
Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL
Hanson Bridgett LLP
San Francisco, CA

Reed Smith LLP
Falls Church, VA

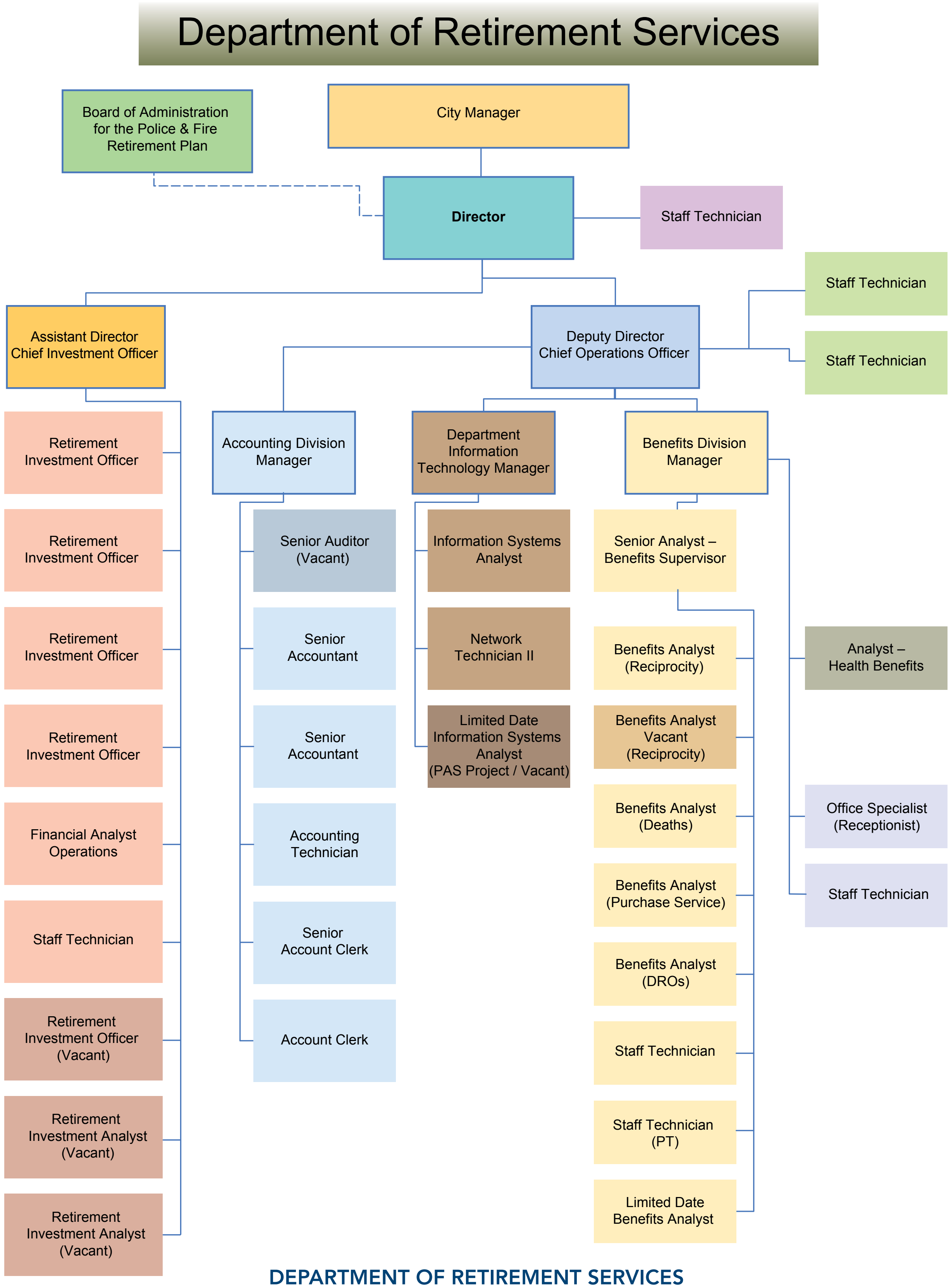
INVESTMENT CONSULTANTS
Albourne America LLC – Absolute Return
San Francisco, CA

NEPC, LLC – General Consultant
Redwood City, CA

AUDITOR
Macias Gini & O'Connell LLP
Walnut Creek, CA

A list of Investment Professionals begins on page 89 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 98 and 99, respectively.

2014 Department of Retirement Services Organizational Chart



DEPARTMENT OF RETIREMENT SERVICES
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Financial Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

Independent Auditor's Report

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

Board of Administration of the City of San José
Police and Fire Department Retirement Plan

San José, California

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund and postemployment healthcare trust fund of the City of San José, California, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2014 and 2013, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

www.mgocpa.com

Emphasis of Matters

As discussed in Note 2 to the financial statements, the Plan implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25,* for the year ended June 30, 2014.

As discussed in Note 5 to the financial statements, based on the most recent actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, the Plan's independent actuaries determined that, at June 30, 2014, the defined benefit pension plan's total pension liability was $3.7 billion, which exceeded its fiduciary net position by $569 million. The actuarial valuation is very sensitive to the underlying assumptions, including the discount rate of 7.125%, which represents the long-term expected rate of return.

As discussed in Note 6 to the financial statements, based on the most recent actuarial valuation as of June 30, 2013, the Plan's independent actuaries determined that, at June 30, 2013, the actuarial accrued liability of the postemployment healthcare plans exceeded the actuarial value of the plans' assets by $625 million. The actuarial valuation includes the assets and liabilities of the Postemployment Healthcare 401(h) Trust, Police Department Healthcare Trust, and the Fire Department Healthcare Trust funds.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of changes in the employer's net pension liability and related ratios, the schedules of employer contributions, the schedule of investment returns, and the schedule of funding progress, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has consolidated the schedules of funding progress and schedules of employer contributions, for its Postemployment Healthcare Plans, that accounting principles generally accepted in the United State of America require to be presented separately for each plan to supplement the financial statements. Such missing information, although not a part of the financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this consolidated information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Plan's financial statements. The introductory section, other supplementary information in the financial section, investment section, actuarial section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 17, 2014

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Board of Administration
Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San José, California 95112-4505

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2014 and 2013. The Plan, consisting of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans, was established to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 11 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2014

- As of June 30, 2014, the Plan had $3,265,815,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of $3,168,173,000 restricted for pension benefits is available to meet the Plan's ongoing obligations to plan participants and their beneficiaries. The postemployment healthcare plan's net position of $97,642,000 is only available for the exclusive use of retiree medical benefits.
- The Plan's total net position held in trust for pension benefits and postemployment healthcare benefits increased during fiscal year ended June 30, 2014 by approximately $401,571,000 or 12.3%, primarily as a result of the appreciation in the fair value of investments caused by an increase in market performance.
- Additions to plan net position during fiscal year ended June 30, 2014 were $595,212,000, which includes member and employer contributions of $36,789,000 and $140,850,000, respectively, with a net investment income of $417,573,000. This represents an increase of $185,273,000 from the prior fiscal year.
- Deductions from plan net position for fiscal year ended June 30, 2014 increased slightly from $187,137,000 to $193,641,000 over the prior year, or approximately 3.4%, due to increases in retirement benefit payments and refunds of contributions, which were attributable to an increased number of retired members and beneficiaries. The Plan received approximately $843,000 from the Early Retiree Reinsurance Program (ERRP), a Federal program to be used in offsetting health benefits premium costs.

Overview of the Financial Statements

The Plan's financial statements, notes to the financial statements and required supplementary information for the year ended June 30, 2014, were prepared in conformity with Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans — an Amendment of GASB Statement No. 25 and GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The following discussion and analysis are intended to serve as an introduction to the Plan's financial statements, which are comprised of these components:

1. Statements of Plan Net Position
2. Statements of Changes in Plan Net Position
3. Notes to Basic Financial Statements

Please note, however, that this report also contains required supplementary information and other supplemental information in addition to the basic financial statements themselves.

The *Statements of Plan Net Position* are a snapshot of account balances at fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The *Statements of Changes in Plan Net Position*, on the other hand, provide a view of current year additions to and deductions from the Plan.

Both statements are in compliance with accounting principles generally accepted in the United States of America (GAAP) as set forth by the GASB. GAAP requires state and local government pension plan and postemployment benefit plan reports to use full accrual accounting as well as make certain disclosures. The Plan complies with all significant requirements of these pronouncements.

The Statements of Plan Net Position and the Statements of Changes in Plan Net Position report information about the Plan's activities. These statements include all assets and liabilities using the full accrual basis of accounting, which recognizes contributions as revenue when due pursuant to legal requirements, benefits and refunds of contributions when currently due and payable under the provisions of the Plan. All of the fiscal year's additions and deductions are taken into account regardless of when cash is received or paid. All realized investment gains and losses are reported at the trade date, not the settlement date. In addition, both realized, unrealized gains and losses on investments are reported.

These two statements report the Plan's net position held in trust for pension benefits and postemployment healthcare benefits (net position)—the difference between assets and liabilities. Over time, increases and decreases in the Plan's net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the net pension liability and the funded status of the other Postemployment Healthcare Plans, should also be considered in measuring the Plan's overall health.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements on pages 40-61 of this report).

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the Plan's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see Required Supplementary Information beginning on page 62 of this report). The schedule of changes in the employer's net pension liability and related ratios of the Defined Benefit Pension Plan was prepared using the actuarial value of plan assets.

The combining schedules of Defined Benefit Pension Plan net position and changes in plan net position, schedules of administrative expenses, investment manager fees, other investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, plan net position may serve over time as a useful indication of the Plan's financial position (see Tables 1a and 1c on page 28). At the close of fiscal years 2014 and 2013, the Plan's total assets exceeded the Plan's total liabilities. The Plan's financial statements do not include the total pension liability or the actuarial accrued liability for the Defined Benefit Pension Plan and other Postemployment Healthcare Plan, respectively.

The Pension Plan's fiduciary net position as a percentage of the total pension liability and the funded status of the other Postemployment Healthcare Plans should also be considered when evaluating the Plan's financial health. Based on the June 30, 2013 valuation rolled forward to June 30, 2014, the fiduciary net position of the Defined Benefit Pension Plan was 84.8 % of the total pension liability. As of June 30, 2013, the most recent valuation, the funded status of the other Postemployment Healthcare Plans increased from 7% to 11%. For more information on the results and impact of the June 30, 2013 valuations, please see Notes 5 and 6 to the financial statements on pages 54-60.

NET POSITION FOR THE POLICE AND FIRE DEFINED BENEFIT PENSION PLAN (Table 1a)

As of June 30, 2014 and 2013 (In Thousands)

	2014	2013	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 9,393	$ 8,911	$ 482	5.4%
Investments at fair value	3,212,863	3,222,359	(9,496)	-0.3%
Total Assets	**3,222,256**	**3,231,270**	**(9,014)**	**-0.3%**
Current liabilities	54,083	441,745	(387,662)	-87.8%
Total Liabilities	**54,083**	**441,745**	**(387,662)**	**-87.8%**
Net Position	**$ 3,168,173**	**$ 2,789,525**	**$ 378,648**	**13.6%**

NET POSITION FOR THE POLICE AND FIRE DEFINED BENEFIT PENSION PLAN (Table 1b)

As of June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 8,911	$ 16,445	$ (7,534)	-45.8%
Investments at fair value	3,222,359	2,816,123	406,236	14.4%
Total Assets	**3,231,270**	**2,832,568**	**398,702**	**14.1%**
Current liabilities	441,745	254,104	187,641	73.8%
Total Liabilities	**441,745**	**254,104**	**187,641**	**73.8%**
Net Position	**$ 2,789,525**	**$ 2,578,464**	**$ 211,061**	**8.2%**

NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN (Table 1c)

As of June 30, 2014 and 2013 (In Thousands)

	2014	2013	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 1,851	$ 913	$ 938	102.7%
Investments at fair value	96,825	83,010	13,815	16.6%
Total Assets	**98,676**	**83,923**	**14,753**	**17.6%**
Current liabilities	1,034	9,204	(8,170)	-88.8%
Total Liabilities	**1,034**	**9,204**	**(8,170)**	**-88.8%**
Net Position	**$ 97,642**	**$ 74,719**	**$ 22,923**	**30.7%**

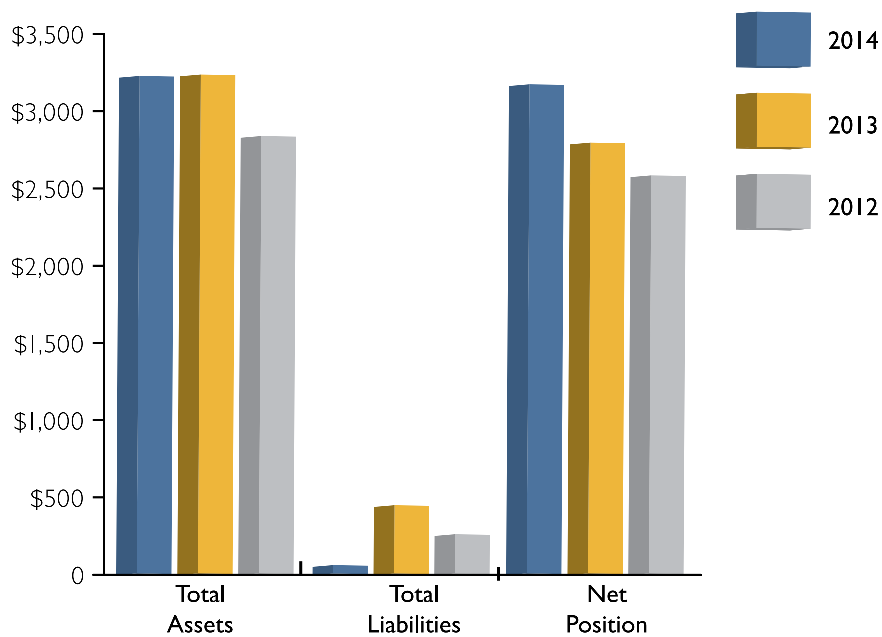
NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN (Table 1d)

As of June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 913	$ 977	$ (64)	-6.6%
Investments at fair value	83,010	68,212	14,798	21.7%
Total Assets	**83,923**	**69,189**	**14,734**	**21.3%**
Current liabilities	9,204	6,211	2,993	48.2%
Total Liabilities	**9,204**	**6,211**	**2,993**	**48.2%**
Net Position	**$ 74,719**	**$ 62,978**	**$ 11,741**	**18.6%**

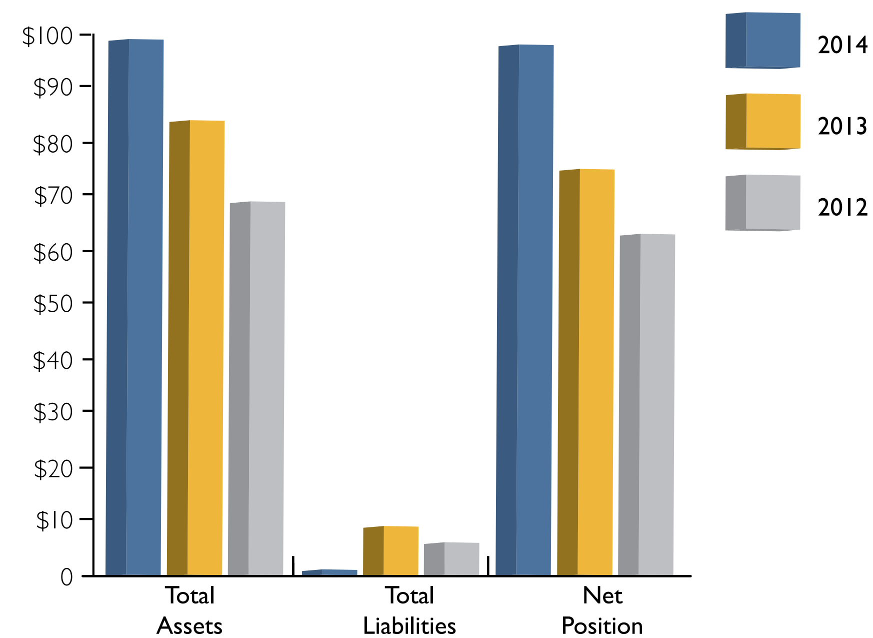
POLICE AND FIRE DEFINED BENEFIT PENSION PLAN NET POSITION (Tables 1a and 1b)

As of June 30, 2014, 2013 and 2012
Dollars in Millions



POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLANS NET POSITION (Tables 1c and 1d)

As of June 30, 2014, 2013 and 2012
Dollars in Millions



Financial Analysis (continued)

As of June 30, 2014, $3,168,173,000 and $97,642,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 28). Plan net position of $3,168,173,000 is available to meet the Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment healthcare plan net position of $97,642,000 is only available for the exclusive use of retiree medical benefits.

As of June 30, 2014, total net position for pension benefits increased by 13.6% and by 30.7% for postemployment healthcare benefits from the prior year primarily due to the net appreciation in the fair value of investments of $343,352,000 and $10,565,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. The appreciation in the fair value of investment was caused by the increase in market performance. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on pages 44-45.

As of June 30, 2013, $2,789,525,000 and $74,719,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 28). Plan net position restricted for pension benefits of $2,789,525,000 was available to meet the Plan's ongoing obligations to pension plan participants and their beneficiaries. Postemployment healthcare plan net position of $74,719,000 was only available for the exclusive use of retiree medical benefits.

As of June 30, 2013, total net position restricted for pension benefits increased by 8.2% and increased by 18.6% for the postemployment healthcare plan from prior year, primarily due to the net appreciation in the fair value of investments of $165,889,000 and $4,180,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively.

The appreciation in the fair value of investment was caused by the increase in the equity markets. The Plan's current asset allocation is discussed in detail in Note 2 (c) of the financial statements on pages 44-45.

As of June 30, 2014, receivables increased by $482,000 or 5.4% and $938,000 or 102.7%, in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively, due to an increase in receivables from brokers, others for year-end investment trades and accrued investment income. In the previous year, receivables for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans decreased by $7,534,000 or 45.8% and $64,000 or 6.6%, respectively, also due to the amount of receivables from brokers and others for year-end investment trades.

As of June 30, 2014, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans decreased by $387,662,000, or 87.8% and $8,170,000 or 88.8%, respectively, compared with June 30, 2013, due mainly to a reduction in securities lending collateral due to borrowers. The decrease in securities lending balance in the prior year was due to investments in more commingled investment manager structures thereby reducing the number of separate securities available for loan. In the previous year, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans increased by $187,641,000, or 73.8% and $2,993,000 or 48.2%, respectively, compared with June 30, 2013, due mainly to an increase in payables to brokers, others for year-end investment trades and securities lending collateral due to borrowers.

POLICE AND FIRE PLAN ACTIVITIES

In fiscal year ended 2014, the Plan's combined Defined Benefit Pension Plan and Postemployment Healthcare Plan net position increased by $401,571,000, or 14.2%, primarily due to the increase in the market performance experienced in the fiscal year. Key elements of the Plan's financial activities are described in the sections that follow.

Additions to Plan Net Position

The assets needed to fund retirement benefits are accumulated through the collection of employer and employee contributions along with earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plans for the fiscal year ended June 30, 2014, were $549,676,000 and $45,536,000, respectively (see Tables 2a and 2c on pages 32-33).

For the fiscal year ended June 30, 2014, additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans increased by $175,490,000 and $9,783,000, or 46.9% and 27.4%, respectively. The primary cause of the increase from prior year was net investment income including securities lending income of $404,978,000 and $12,595,000, respectively, compared to net investment income of $284,725,000 and $6,447,000, in 2013. The net investment gains were primarily a result of the increase in the market performance during the fiscal year ended June 30, 2014. The Plan's time-weighted gross rate of return, as determined by the Plan's investment consultant on an investment (non GAAP) basis, for the fiscal year ended June 30, 2014, was 13.9% compared to 9.9% for the fiscal year ended June 30, 2013. On a net of management fee basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2014, was 13.5% compared to 9.6% for the fiscal year ended June 30, 2013.

For the fiscal year ended June 30, 2013, additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans increased by $268,173,000 and $3,879,000, or 253.0% and 12.2%, respectively, from the prior year primarily due to increases of $282,011,000 and $7,231,000, respectively, in net investment income excluding securities lending income, which was a result of the gains experienced by the Plan in the first three quarters of the fiscal year. The Plan's time-weighted gross rate of return, as determined by the Plan's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2013, was 9.9% compared to -0.1%, for the fiscal year ended June 30, 2012. On a net of management fee expenses basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2013, was 9.6% compared to -.05%, for the fiscal year ended June 30, 2012.

Deductions from Plan Net Position

The Plan was created to provide a monthly pension allowance, survivor benefits, permanent disability benefits, and postemployment healthcare benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments and healthcare premium payments, as designated by the Plan, refunds of contributions to terminated employees, and the cost of administering the Plan.

Deductions for the fiscal year ended June 30, 2014, totaled $171,028,000 and $22,613,000, for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased 4.8% from the previous year due to an increase in benefit payments (see Table 2a on page 32). The increases in benefit payments are primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. Deductions for the Postemployment Healthcare Plans decreased by 5.8% over the previous year due to reductions in healthcare insurance premiums for retirees and beneficiaries (see Table 2c on page 33). The Plan received approximately $843,000 from a Federal program, ERRP; these funds were reimbursed to retirees who were enrolled in the Plan's health benefit plan during October 2013 and had premiums deducted from their September 2013 pension check.

Deductions for the fiscal year ended June 30, 2013, totaled $163,125,000 and $24,012,000, for the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively. Deductions for the Defined Benefit Pension Plan increased by 5.1% from the previous year due to an increase in the number of retirees and beneficiaries and final average salaries (see Table 2a on page 32). Deductions for the Postemployment Healthcare Plans decreased by 15.9% over the previous year due to reductions in healthcare insurance premiums for retirees and beneficiaries (see Table 2d on page 33).

Management's Discussion and Analysis (Unaudited) *(Continued)*

CHANGES IN NET POSITION FOR POLICE AND FIRE DEFINED BENEFIT POSITION PLAN (Table 2a)
For the Fiscal Years Ended June 30, 2014 and 2013 (In Thousands)

	2014	2013	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 21,115	$ 20,227	$ 888	4.4%
Employer contributions	123,583	105,234	18,349	17.4%
Net investment income*	404,340	245,526	158,814	64.7%
Net securities lending income	638	3,199	(2,561)	-80.1%
Total Additions	**549,676**	**374,186**	**175,490**	**46.9%**
** Net of investment expenses of $13,710 and $9,784 in 2014 and 2013, respectively.*				
Retirement benefits	157,635	150,811	$6,824	4.5%
Death benefits	8,738	8,005	733	9.2%
Refund of contributions	1,024	886	138	15.6%
Administrative	3,631	3,423	208	6.1%
Total Deductions	**171,028**	**163,125**	**7,903**	**4.8%**
Net Increase in Plan Net Position	**378,648**	**211,061**	**167,587**	**79.4%**
Beginning Net Position	**2,789,525**	**2,578,464**	**211,061**	**8.2%**
Ending Net Position	**$ 3,168,173**	**$ 2,789,525**	**$ 378,648**	**13.6%**

CHANGES IN NET POSITION FOR POLICE AND FIRE DEFINED BENEFIT POSITION PLAN (Table 2b)
For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 20,227	$ 19,345	$ 882	4.6%
Employer contributions	105,234	121,009	(15,775)	-13.0%
Net investment income/(loss)*	245,526	(36,485)	282,011	773.0%
Net securities lending income	3,199	2,144	1,055	49.2%
Total Additions	**374,186**	**106,013**	**268,173**	**253.0%**
** Net of investment expenses of $9,784 and $10,122 in 2013 and 2012, respectively.*				
Retirement benefits	150,811	142,314	8,497	6.0%
Death benefits	8,005	7,480	525	7.0%
Refund of contributions	886	1,926	(1,040)	-54.0%
Administrative	3,423	3,556	(133)	-3.7%
Total Deductions	**163,125**	**155,276**	**7,849**	**5.1%**
Net Increase (Decrease) in Plan Net Position	**211,061**	**(49,263)**	**260,324**	**528.4%**
Beginning Net Position	**2,578,464**	**2,627,727**	**(49,263)**	**-1.9%**
Ending Net Position	**$ 2,789,525**	**$ 2,578,464**	**$ 211,061**	**8.2%**

CHANGES IN NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLANS (Table 2c)
For the Fiscal Years Ended June 30, 2014 and 2013 (In Thousands)

	2014	2013	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 15,674	$ 13,498	$ 2,176	16.1%
Employer contributions	17,267	15,808	1,459	9.2%
Net investment income*	12,582	6,374	6,208	97.4%
Net securities lending income	13	73	(60)	-82.2%
Total Additions	**45,536**	**35,753**	**9,783**	**27.4%**
** Net of investment expenses of $302 and $231 in 2014 and 2013, respectively.*				
Healthcare insurance premiums	22,510	23,934	(1,424)	-5.9%
Administrative	103	78	25	32.1%
Total Deductions	**22,613**	**24,012**	**(1,399)**	**-5.8%**
Net Increase in Plan Net Position	**22,923**	**11,741**	**11,182**	**95.2%**
Beginning Net Position	**74,719**	**62,978**	**11,741**	**18.6%**
Ending Net Position	**$ 97,642**	**$ 74,719**	**$ 22,923**	**30.7%**

CHANGES IN NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLANS (Table 2d)
For the Fiscal Years Ended June 30, 2013 and 2012 (In Thousands)

	2013	2012	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 13,498	$ 11,474	$ 2,024	17.6%
Employer contributions	15,808	21,205	(5,397)	-25.5%
Net investment income/(loss)*	6,374	(857)	7,231	843.8%
Net securities lending income	73	52	21	40.4%
Total Additions	**35,753**	**31,874**	**3,879**	**12.2%**
** Net of investment expenses of $231 and $244 in 2013 and 2012, respectively.*				
Healthcare insurance premiums	23,934	28,479	(4,545)	-16.0%
Administrative	78	87	(9)	-10.3%
Total Deductions	**24,012**	**28,566**	**(4,554)**	**-15.9%**
Net Increase in Plan Net Position	**11,741**	**3,308**	**8,433**	**254.9%**
Beginning Net Position	**62,978**	**59,670**	**3,308**	**5.5%**
Ending Net Position	**$ 74,719**	**$ 62,978**	**$ 11,741**	**18.6%**

Reserves

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan's net position. The Plan's net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plans (which include the Postemployment Healthcare 401(h) Plan, the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan). Within the Defined Benefit Pension Plan Retirement Fund and Postemployment Healthcare Funds, there are two reserves: the general reserve and the employee contributions reserve. See the reserve table on page 45 for a complete listing and year-end balances of the Plan's reserves.

The Plan's reserves are established from employer and employee contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Additionally, the appreciation (depreciation) in the fair value of investments is held in the unrealized gain/loss account, a component of each Plan's general reserve.

The Plan's Fiduciary Responsibilities

The Plan's Board of Administration is the fiduciary trustee of the Defined Benefit Pension Plan and Postemployment Healthcare Plans. Under the California Constitution and the San José Municipal Code, Plan assets may only be used for the exclusive benefit of providing benefits to plan participants, their beneficiaries and defraying reasonable costs of administration.

Economic Factors and Rates Affecting Next Year

The Plan's actuarial valuation as of June 30, 2013, was used to determine the contribution rates effective June 22, 2014, for fiscal year 2014-2015. The actuarially determined, annual required contribution rates and dollar amounts calculated in the June 30, 2013 valuation were adopted by the Board and became effective in fiscal year 2014-2015.

Defined Benefit Pension Plan Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The Plan's actuarial valuation uses a five year smoothing method for investment gains and losses. This means that the current year's gains or losses compared to the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The UAAL of $806.1 million, as of June 30, 2013, does not include the impact of approximately $17.6 million of deferred investment gains due to the investment gains in 2013, 2011 and 2010 not being fully recognized yet. It is anticipated that future actuarial valuations will recognize these remaining deferred investment gains as described above and the smoothing of any new gains or losses over a five year period.

The Plan is exposed to general investment market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 7.125%, net of investment expenses, in the actuarial valuation as of June 30, 2013. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAAL thereby increasing required contributions to the Plan.

In addition to investment market risk, the Plan is exposed to non-economic or demographic risk. The demographic assumptions, which include rates of retirement, disability and mortality, are often unique to the Plan's provisions and the specific demographics of the Plan participants. Deviations from these long term actuarial assumptions cause the Plan to experience actuarial gains or losses, which in turn can lead to volatility in the contribution rates. To minimize this risk, every two years the Plan's actuary conducts an experience study to assess whether the experience of the Plan is conforming to the long-term actuarial assumptions. The actuarial assumptions may be adjusted, where it is determined that current assumptions will not provide the most accurate expectation of what may happen in the future.

The June 30, 2013 valuation reflects the increase in amortization period for changes in methods and assumptions from closed 16-year periods to closed 20-year periods beginning with the valuation date in which they are effective. Actuarial gains, losses and plan changes continue to be amortized as a level percentage of pay, assuming a 3.5% annual growth in payroll over a 16-year period, beginning with the valuation date in which they first arise. The equivalent single amortization period for the June 30, 2013 valuation is 13.4 years.

Contribution rates for fiscal year 2014-2015, as determined by the June 30, 2013 valuation, included the impact of the continued effect of the layered 20-year closed amortization period and the recognition of smoothed deferred investment gains and losses.

The valuation for June 30, 2012 and beyond, will include the impact of only the implemented sections of ***The Sustainable Retirement Benefits and Compensation Act*** (Pension Act) enacted by the voters of San José on June 5, 2012. The Pension Act amended the City Charter to change benefits for current employees to establish different benefits for new employees and to place other limitations on benefits.

Postemployment Healthcare Plans

On June 18, 2013, the City Council adopted an ordinance to provide for a Tier 2 for Police members in the Plan, effective for employees hired or reinstated on or after August 4, 2013. The new tier includes benefit changes from the existing Plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year (for the first 20 years and 4% for years after that) to 2.0% per year; an increase from 50 years to 60 years of age for retirement eligibility at full benefits; a consumer price index-driven cost-of-living increase with a maximum of 1.5% instead of the existing annual fixed 3.0% increase; a decrease in maximum benefit to 65% of final average salary from 90%; pensionable compensation to be based on base salary only rather than on base compensation plus premium pays; members to contribute 50% of the total normal cost, any accrued unfunded actuarial liability and administrative costs of the Plan; and final average compensation based on the highest consecutive three years of compensation instead of on the highest one year. Significant portions of the Pension Act applicable to existing employees and effective June 23, 2013 are currently subject to legal challenge by members of the Plan.

During the year ended June 30, 2014, the Postemployment Healthcare Plans, which includes the 401(h) and the Internal Revenue Code Section 115 Subtrusts: the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, completed its GASB Statement No. 43 compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2013. A summary of the results is presented in Note 6 to the financial statements. The valuation will continue to include increased rates for retiree health and dental contributions for Fire and Police members in order to phase-in to fully contributing the GASB Statement 43 annual required contribution as a result of the Memorandum of Agreement (MOA) entered into by the Fire and Police members and the City of San José on March 3, 2011 and June 28, 2009, respectively, over a five year period. Fiscal year 2012 was the first year of the phase-in for the Fire members of the Plan. The first year for the Police members was fiscal year 2010. The Fire and Police members entered into separate MOA's with the City; however, both agreements contain incremental increase caps of 1.25% and 1.35%, of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed 10% for members and 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11% of pensionable pay.

On May 22, 2012, a new Internal Revenue Code Section 115 Trust was established by the San José City Council (Ordinance #29065), to provide an alternative source of funding from the existing 401(h) account located within the pension fund for retiree healthcare benefits. This health care trust was further clarified by the San José City Council (Ordinance #29260) on June 12, 2013, which declared that the Police Department Health Care Trust Fund and the Fire Department Health Care Trust Fund may be structured as two wholly separate subtrusts of one trust. Employer contributions to the new trust funds began in fiscal year 2012-2013. On August 6, 2013, the City obtained a private letter ruling from the Internal Revenue Service assuring the pre-tax treatment of employee contributions to the new trust funds. On July 9, 2014, the Plan received a private letter ruling from the Internal Revenue Service on the tax qualification of the new Section 115 Trust. As of this date, it has not been determined if or when employee contributions will begin to go into the 115 trust.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Police and Fire Department Retirement Plan
1737 North First Street, Suite 600
San José, California 95112-4505

Respectfully Submitted,

Roberto L. Peña
Director

Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

June 30, 2014 and 2013 (In Thousands)

	2014				
	Defined Benefit Pension Plan	Postemployment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
Assets					
Receivables:					
Employee contributions	$ 488	$ 363	$ -	$ -	$ 851
Employer contributions	3,477	-	326	176	3,979
Brokers and others	1,798	910	-	-	2,708
Accrued investment income	3,630	76	-	-	3,706
Total receivables	**9,393**	**1,349**	**326**	**176**	**11,244**
Investments, at fair value:					
Securities and other:					
Domestic fixed income	465,947	8,556	8,269	3,717	486,489
International fixed income	81	1	-	-	82
Collective short term investments	135,267	2,481	340	153	138,241
Absolute returns	397,883	7,306	-	-	405,189
Global equity	880,386	15,961	12,008	5,391	913,746
Private equity	247,291	4,541	-	-	251,832
Opportunistic	252,470	4,636	-	-	257,106
Real assets	558,399	10,253	3,041	1,367	573,060
Real estate	224,855	4,129	2,581	1,160	232,725
International currency contracts, net	62	1	-	-	63
Securities lending cash collateral investment pool	50,222	933	-	-	51,155
Total investments	**3,212,863**	**58,798**	**26,239**	**11,788**	**3,309,688**
TOTAL ASSETS	**3,222,256**	**60,147**	**26,565**	**11,964**	**3,320,932**
Liabilities					
Payable to brokers	1,956	70	-	-	2,026
Securities lending collateral due to borrowers	50,728	942	-	-	51,670
Other liabilities	1,399	25	(4)	1	1,421
TOTAL LIABILITIES	**54,083**	**1,037**	**(4)**	**1**	**55,117**
Plan Net Position - Restricted For:					
Pension benefits	3,168,173	-	-	-	3,168,173
Postemployment healthcare benefits	-	59,110	26,569	11,963	97,642
TOTAL PLAN NET POSITION	**$ 3,168,173**	**$ 59,110**	**$ 26,569**	**$ 11,963**	**$ 3,265,815**

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF PLAN NET POSITION (Continued)

June 30, 2014 and 2013 (In Thousands)

2013

	Defined Benefit Pension Plan	Postemployment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
Assets					
Receivables:					
Employee contributions	$ 456	$ 341	$ -	$ -	$ 797
Employer contributions	3,088	-	234	189	3,511
Brokers and others	669	44	-	-	713
Accrued investment income	4,698	105	-	-	4,803
Total receivables	**8,911**	**490**	**234**	**189**	**9,824**
Investments, at fair value:					
Securities and other:					
Domestic fixed income	151,906	3,100	-	-	155,006
International fixed income	5,447	111	-	-	5,558
Collective short term investments	385,584	7,869	10	4	393,467
Global equity	1,536,611	32,261	10,369	4,348	1,583,589
Private equity	128,184	2,616	-	-	130,800
Opportunistic	232,455	4,744	-	-	237,199
Real assets	237,863	4,854	1,049	439	244,205
Real estate	127,367	2,599	-	-	129,966
International currency contracts, net	(1,297)	(26)	-	-	(1,323)
Securities lending cash collateral investment pool	418,239	8,663	-	-	426,902
Total investments	**3,222,359**	**66,791**	**11,428**	**4,791**	**3,305,369**
TOTAL ASSETS	**3,231,270**	**67,281**	**11,662**	**4,980**	**3,315,193**
Liabilities					
Payable to brokers	19,044	427	-	-	19,471
Securities lending collateral due to borrowers	418,690	8,673	-	-	427,363
Other liabilities	4,011	104	-	-	4,115
TOTAL LIABILITIES	**441,745**	**9,204**	**-**	**-**	**450,949**
Plan Net Position - Restricted For:					
Pension benefits	2,789,525	-	-	-	2,789,525
Postemployment healthcare benefits	-	58,077	11,662	4,980	74,719
TOTAL PLAN NET POSITION	**$ 2,789,525**	**$ 58,077**	**$ 11,662**	**$ 4,980**	**$ 2,864,244**

See accompanying notes to basic financial statements. *(Concluded)*

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2014 and 2013 (In Thousands)

	2014				
	Defined Benefit Pension Plan	**Postemployment Healthcare 401(h)**	**Police Department Healthcare Trust**	**Fire Department Healthcare Trust**	**Total**
Additions					
Contributions:					
Employee	$ 21,115	$ 15,674	$ -	$ -	$ 36,789
Employer	123,583	-	11,712	5,555	140,850
Total contributions	**144,698**	**15,674**	**11,712**	**5,555**	**177,639**
Investment income:					
Net appreciation in fair value of investments	343,352	6,734	2,643	1,188	353,917
Interest income	39,813	780	-	-	40,593
Dividend income	31,137	611	590	265	32,603
Net rental income	3,748	73	-	-	3,821
Less investment expense	(13,710)	(269)	(23)	(10)	(14,012)
Net investment income before securities lending income	**404,340**	**7,929**	**3,210**	**1,443**	**416,922**
Securities lending income:					
Earnings	861	17	-	-	878
Rebates	(6)	-	-	-	(6)
Fees	(217)	(4)	-	-	(221)
Net securities lending income	**638**	**13**	**-**	**-**	**651**
Net investment income	**404,978**	**7,942**	**3,210**	**1,443**	**417,573**
TOTAL ADDITIONS	**549,676**	**23,616**	**14,922**	**6,998**	**595,212**
Deductions					
Retirement benefits	157,635	-	-	-	157,635
Healthcare insurance premiums	-	22,510	-	-	22,510
Death benefits	8,738	-	-	-	8,738
Refund of contributions	1,024	-	-	-	1,024
Administrative expenses and other	3,631	73	15	15	3,734
TOTAL DEDUCTIONS	**171,028**	**22,583**	**15**	**15**	**193,641**
NET INCREASE	**378,648**	**1,033**	**14,907**	**6,983**	**401,571**
Plan Net Position - Restricted For Pension and Postemployment Healthcare Benefits:					
BEGINNING OF YEAR	**2,789,525**	**58,077**	**11,662**	**4,980**	**2,864,244**
END OF YEAR	**$ 3,168,173**	**$ 59,110**	**$ 26,569**	**$ 11,963**	**$ 3,265,815**

See accompanying notes to basic financial statements. *(Continued)*

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION (Continued)

For the Fiscal Years Ended June 30, 2014 and 2013 (In Thousands)

	2013				
	Defined Benefit Pension Plan	Postemployment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
Additions					
Contributions:					
Employee	$ 20,227	$ 13,498	$ -	$ -	$ 33,725
Employer	105,234	-	11,074	4,734	121,042
Total contributions	**125,461**	**13,498**	**11,074**	**4,734**	**154,767**
Investment income:					
Net appreciation in fair value of investments	165,889	3,750	303	127	170,069
Interest income	43,509	979	(30)	(13)	44,445
Dividend income	42,281	950	322	135	43,688
Net rental income	3,631	82	-	-	3,713
Less investment expense	(9,784)	(221)	(7)	(3)	(10,015)
Net investment income before securities lending income	**245,526**	**5,540**	**588**	**246**	**251,900**
Securities lending income:					
Earnings	3,845	87	-	-	3,932
Rebates	(91)	(2)	-	-	(93)
Fees	(555)	(12)	-	-	(567)
Net securities lending income	**3,199**	**73**	**-**	**-**	**3,272**
Net investment income	**248,725**	**5,613**	**588**	**246**	**255,172**
TOTAL ADDITIONS	**374,186**	**19,111**	**11,662**	**4,980**	**409,939**
Deductions					
Retirement benefits	150,811	-	-	-	150,811
Healthcare insurance premiums	-	23,934	-	-	23,934
Death benefits	8,005	-	-	-	8,005
Refund of contributions	886	-	-	-	886
Administrative expenses and other	3,423	78	-	-	3,501
TOTAL DEDUCTIONS	**163,125**	**24,012**	**-**	**-**	**187,137**
NET INCREASE / (DECREASE)	**211,061**	**(4,901)**	**11,662**	**4,980**	**222,802**
Plan Net Position - Restricted For Pension and Postemployment Healthcare Benefits:					
BEGINNING OF YEAR	**2,578,464**	**62,978**	**-**	**-**	**2,641,442**
END OF YEAR	**$ 2,789,525**	**$ 58,077**	**$ 11,662**	**$ 4,980**	**$ 2,864,244**

See accompanying notes to basic financial statements. *(Concluded)*

Notes to Financial Statements

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San José Police and Fire Department Retirement Plan (Plan) is provided for financial reporting purposes only. Readers should refer to the City of San José Municipal Code for more complete information.

(a) General

The Plan was established in 1961 to provide retirement benefits for certain employees of the City of San José (City). The current Plan consists of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans. On January 27, 2011, the Plan requested a compliance statement and favorable determination letter from the Internal Revenue Service (IRS) under the streamline procedures of the voluntary compliance program for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans. The favorable determination letter was received from the IRS on March 24, 2014.

The Postemployment Healthcare 401(h) Plan, which was established under Internal Revenue Code (IRC) Section 401(h), is an account within the pension plan which is used for the funding and payment of the retiree healthcare benefits. As a 401(h) plan, the healthcare benefits must be subordinate to the pension plan benefits. The medical benefits are considered subordinate if, when ignoring contributions for past service benefit, the contributions for medical benefits are no greater than 25% of the actual contributions to both the pension and medical benefits. Periodic reviews and projections of the IRC 25% subordination test are performed by the Plan's actuary.

A new IRC Section 115 Trust was established on May 22, 2012 by the San José City Council (Ordinance number 29065) to provide an alternative to the existing 401(h) account. The healthcare trust was clarified by the San José City Council (Ordinance #29260) on June 12, 2013, which declared that the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan may be structured as two wholly separate sub-trusts of one trust. Employer contributions to the new trust funds began in fiscal year 2012-2013. On August 6, 2013, the City obtained a private letter ruling from the IRS assuring the pre-tax treatment of employee contributions to the new trust funds. On July 9, 2014, the Plan received a private letter ruling from the IRS on the tax qualification of the new Section 115 Trust. As of this date, it has not been determined if or when employee contributions will begin to go into the Section 115 trust.

The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust and postemployment healthcare trust fund. It is administered by the Director of Retirement Services, who is an employee of the City under the dual direction of the City Manager and the Plan's Board of Administration. The Retirement Plan is administered by a nine-member Board of Administration composed of two City employees elected by members of the system, two Retired Plan members elected by the Retiree Associations, four public members, who are not connected with the City and have significant banking or investment experience, and another public member, who is selected by the eight Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San José Municipal Code. The contribution/benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Participants of the Postemployment Healthcare Plans are also participants of the Defined Benefit Pension Plan.

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

	2014			
	Police			
Defined Benefit Pension Plan:	**Tier 1**	**Tier 2**	**Fire**	**Total**
Retirees and beneficiaries currently receiving benefits*	1,216	-	818	2,034
Terminated vested members not yet receiving benefits	218	22	42	282
Active members	930	67	657	1,654
Total	**2,364**	**89**	**1,517**	**3,970**
Postemployment Healthcare Plans:				
Retirees and beneficiaries currently receiving benefits*	1,144	-	779	1,923
Terminated vested members not yet receiving benefits	6	-	3	9
Active members	930	67	657	1,654
Total	**2,080**	**67**	**1,439**	**3,586**

	2013		
Defined Benefit Pension Plan:	**Police**	**Fire**	**Total**
Retirees and beneficiaries currently receiving benefits*	1,178	817	1,995
Terminated vested members not yet receiving benefits	188	41	229
Active members	1,028	679	1,707
Total	**2,394**	**1,537**	**3,931**
Postemployment Healthcare Plans:			
Retirees and beneficiaries currently receiving benefits*	1,113	780	1,893
Terminated vested members not yet receiving benefits	6	1	7
Active members	1,028	679	1,707
Total	**2,147**	**1,460**	**3,607**

** The number of combined domestic relations order recipients is not included in the count above as their benefit payment is included in the member's count.*

The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

(b) Pension Benefits

The Plan was established in 1961 to provide retirement benefits for certain employees of the City of San José (City). The current Plan consists of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans. On January 27, 2011 the Plan requested a compliance statement and favorable determination letter from the Internal Revenue Service (IRS) under the streamline procedures of the voluntary compliance program for the Defined Benefit Pension Plan and the Postemployment Healthcare Plans. The favorable determination letter was received from the IRS on March 24, 2014.

A Police Tier 1 or Fire member who meets the following requirements is entitled to a monthly retirement allowance for service: an employee with 10 or more years of service who resigns and leaves his/her contributions in the Plan (20 years must have elapsed from the date of entry into system); an employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; a vested employee of age 70 regardless of the member's years of service.

For members retiring prior to February 4, 1996, the retirement allowance is equal to the final average salary multiplied by 2.5% multiplied by the years of service for up to 30 years (the maximum benefit is 75% of the final average salary). For members retiring on or after February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final average salary multiplied by 2.5% for the first 20 years of service plus final average salary multiplied by 3% for the next ten years (the maximum benefit is 80% of the final average salary). For members retiring on or after February 4, 2000, the monthly allowance consists of final average salary multiplied by 2.5% for the first 20 years of service, by 3% for the next 5 years of service and 4% for the next 5 years of service (the maximum benefit is 85% of the final average salary). Effective July 1, 2006 (for Police members only), the monthly allowance consists of the final average salary multiplied by 2.5% for the first 20

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

years of service and by 4% for the next 10 years of service (the maximum benefit is 90% of the final average salary). Effective July 1, 2008 (for Fire members only), the monthly allowance consists of the final average salary multiplied by 2.5% for the first 20 years of service. If Fire members have more than 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (the maximum benefit is 90% of the final average salary).

The final average salary for a Police Tier 1 or Fire member is the average monthly salary during the highest 12 consecutive months of service. However, if any of the highest pay periods are within the last 12 months of work, that highest year's salary will be capped at 108% of the 12 months immediately preceding the last 12 months of service. If none of the highest 12 months are in the last 12 months of service, there is no cap. In addition, retirement benefits are adjusted by an annual cost-of-living allowance (COLA). The current COLA increase is 3% per year.

A Police member hired, rehired or reinstated on or after August 4, 2013 joins the Plan as a member of Police Tier 2. Police Tier 2 members who meet the following requirements are entitled to a monthly retirement allowance for service: An employee with 10 or more years of service, who reaches the normal retirement age of 60, is entitled to an annual pension benefit equal to 2% of final average annual salary for each year of service, up to a maximum benefit of 65% of final compensation; or an employee with 10 or more years of service who is at least age 50, subject to an actuarial equivalent reduction.

Police Tier 2 final compensation is the average annual salary during the highest 3 years of consecutive service. The Police Tier 2 COLA increase is issued according to the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics Index, CPI-U, December to December) and is capped at 1.5% per fiscal year. The first COLA is prorated in accordance with the number of months the member has been retired.

If a Plan member terminates employment and elects to receive a return of contributions, the accumulated plan benefits attributable to the City's contributions are forfeited. However, the employee's accumulated contributions plus 2% interest per annum is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the Plan. Employee contributions to the Section 115 Healthcare Trust are not refunded.

Effective September 30, 1994, the Plan entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal retirement benefits to members. In certain situations, this agreement could result in improved retirement benefits for members who move from one eligible retirement system to another.

(c) Death Benefits

Subject to a maximum of 42.5% of final average salary, the spouse or domestic partner of a Fire or Police Tier 1 member receives the greater of 50% of the member's benefit or 37.5% to 42.5% of the final average salary if: (1) an active employee's death is service related; or (2) an active employee's death is non-service related and occurs with at least 20 years of service; or (3) a retiree dies who was retired from service or who received a service related disability. Optional retirement allowances are available. Effective July 1, 2008, subject to a maximum of 45%, the surviving spouse or surviving registered domestic partner of Fire members only that retired after the effective date, receives the greater of 50% of the member's benefit or 37.5% to 45% (percentage dependent on the years of service) of the member's final average salary if 1) an employee's death is service related regardless of years of service; or 2) an employee's death is non-service related and occurs with at least 20 years of service; or 3) a retiree dies who was retired from service or who received a service related disability.

Additionally, a monthly benefit for dependent children up to 18 years of age (or up to 22 years of age if a full-time student), is paid at a rate of 25% of final average salary per child with a maximum family benefit of 75% of the final average salary if death is service related.

If an active employee's death is non-service related and the employee has at least two years of service, the Plan allows for an annual annuity of 24% of the employee's final average salary for the first two years of service, plus 0.75% for each year thereafter, to be paid to his/her surviving spouse or registered domestic partner until remarriage to a maximum of 37.5% of final average salary, if the employee had less than 20 years of service. The benefit for an employee with at least 20 years of service is 50% of what the member's benefit would have been up to a 45% maximum for Fire members or a maximum of 42.5%, for Police members. These benefits are also paid to the surviving spouse or registered domestic partner of either a Fire or Police retiree on a non-service related disability with a maximum of 37.5%, regardless of the number of years of service

Additionally, for situations other than for a service-related death, annual benefits for dependent children up to 18 years of age (or 22 years of age if a full-time student), are as follows:

- One child - 25% of final average salary
- Two children - 37.5% of final average salary
- Three or more children - 50% of final average salary.

The maximum annual benefit paid to a family under any circumstance is 75% of final average salary. If the employee has no spouse or registered domestic partner or children, a lump sum equal to the greater of the employee's accumulated contributions or $1,000, is paid to his/her estate.

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

If a Police Tier 2 employee is killed in the line of duty, a surviving spouse or registered domestic partner is paid the greater of 50% of the member's final compensation or the benefit the employee would have been eligible for had they retired at the time of death. If a Police Tier 2 employee's death before retirement is non-service related, they have a minimum of 2 years of service, but are not eligible to retire, the surviving spouse or domestic partner is paid the greater of either 2% multiplied by the years of service multiplied by the final compensation (30% maximum) or 10% of the final compensation.

If a Police Tier 2 member dies after retirement, there will only be a survivorship payment paid, if at the time of retirement, the member elected to receive a lower pension benefit to provide a survivorship benefit to a spouse, registered domestic partner, child or children. The survivorship allowance is calculated by the Board's actuary for a 50%, 75% or 100% continuance that is actuarially equivalent to the spouse, registered domestic partner, child or children designated at the time of retirement. No additional survivorship benefits are provided.

(d) Disability Benefits

If an employee suffers a service-related disability before retirement, an annual benefit is paid equal to 50% of final average salary. For members with more than 20 years of service, the monthly retirement allowance is the final average salary multiplied by 50%, plus the final average salary multiplied by 2.5% for each year over 20 if a member retired prior to February 4, 1996 (maximum benefit, 75% of final average salary). For members retiring after February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). For members retiring after February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 up to 30 years of service (maximum benefit, 85% of final average salary).

Effective July 1, 2006, the monthly allowance, for Police members only, consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008, for Fire members only, with service of 20 years or greater, the monthly allowance consists of final average salary multiplied by 3% for each full year (maximum 90%). For less than 20 years of service, the allowance consists of final average salary multiplied by 50%.

A Police Tier 2 member who is granted a service connected disability retirement will receive an annual benefit equal to 50% of final compensation; there is no minimum service requirement.

Retirement for a non-service connected disability (Police Tier 1 or Fire) with at least 2 years of service will provide the following benefit: for members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final average salary for the first two years plus 1% for each additional year of service not to exceed 50% of final average salary. For members retiring on or after February 4, 1996 but prior to February 4, 2000 and for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). For members retiring on or after February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20, but less than 25 years of service, plus 4% of final average salary for each year over 25 (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance, for Police members only, consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008, for Fire members only with 20 years of service or greater, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

A Police Tier 2 member who is granted a non-service connected disability retirement are required to have at least 5 years of service and will receive a monthly benefit of 2% multiplied by the years of service, multiplied by the final average salary (minimum of 20% and maximum of 50%).

(e) Postemployment Healthcare Benefits

The City of San José Municipal Code provides that retired employees with 15 years or more of service, their survivors, or those retired employees who are receiving a pension benefit of at least 37.5% of final average salary, are eligible for a subsidy of 100% of the lowest cost medical insurance plan available to an active police and fire employee, as defined in the Municipal Code. However, the Plan pays the entire premium cost for dental insurance coverage.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Plan is reported in a pension trust and postemployment healthcare trust fund in the City of San José's basic financial statements. The financial statements of the Plan present only the financial activities of the Plan and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting. Contributions are recognized as revenue when due pursuant to legal requirements. Benefits and refunds of contributions are recognized when currently due and payable under the provisions of the Plan. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plans are accounted for separately. It is required by the Municipal Code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

The preparation of the financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(c) Investments

The City of San José Municipal Code Section 3.36.530 delegates authority to the Board of Administration to invest the monies of the Plan as provided in Section 3.36.540. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.36.540.

On June 5, 2014, the Board approved a long-term pension asset allocation which was subsequently revised on September 4, 2014. The new asset allocation made changes from the August 2, 2012, adopted asset allocation including: a decrease in fixed income strategies, an increase in the allocation to equity strategies and an increase to absolute return strategies. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the Plan's adopted actuarial assumed rate of return as utilized in the June 30, 2013 valuations. The Plan's investment asset allocation is as follows:

PENSION

Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global and private equity	25%	37%	50%
Fixed income	15%	25%	35%
Inflation-linked assets	12%	17%	25%
Absolute return strategies	10%	20%	30%
Cash	0%	1%	5%

In addition, on August 7, 2014, the Board approved a new long-term asset allocation for the Healthcare Trust plans. Recommended changes included utilizing more active management, decreasing fixed income strategies and increasing absolute return strategies.

HEALTHCARE

Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	25%	43%	50%
Fixed income	5%	15%	25%
Inflation-linked assets	12%	22%	25%
Absolute return strategies	0%	20%	25%
Cash	0%	0%	5%

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information.

The fair value of derivative investments that are not exchange traded, such as swaps and rights is determined by the Plan's custodian based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

specified contract exchange rate and the exchange rate at the end of the reporting period. The fair value of the separate real estate properties are based on annual independent appraisals. As of June 30, 2014, the separate real estate properties include: office buildings in O'Fallon, MO and San José, CA. As of June 30, 2014 and 2013, the office building in O'Fallon, MO had a mortgage payable with a fair value of $8,862,400 and $8,752,000, respectively.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 13.5%. The money weighted rate of return expresses investment performance, net of investment expense and adjusted for the changing amounts actually invested.

(d) Plan Net Position Restricted for Pension and Postemployment Healthcare Benefits

The Plan is required by the City of San José Municipal Code to establish various reserves in the plan net position. The plan net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plans. As of June 30, 2014 and 2013, plan net position totaling $3,265,815,000 and $2,864,244,000, respectively, is allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Postemployment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Total
June 30, 2014:							
Employee contributions	$ 210,090	$ 65,713	$ 275,803	$ 56,791	$ -	$ -	$ 332,594
General reserve	1,827,228	1,065,142	2,892,370	2,319	26,569	11,963	2,933,221
TOTAL	**$ 2,037,318**	**$ 1,130,855**	**$ 3,168,173**	**$ 59,110**	**$ 26,569**	**$ 11,963**	**$ 3,265,815**
June 30, 2013:							
Employee contributions	$ 203,257	$ 61,327	$ 264,584	$ 41,325	$ -	$ -	$ 305,909
General reserve	1,614,863	910,078	2,524,941	16,752	11,662	4,980	2,558,335
TOTAL	**$ 1,818,120**	**$ 971,405**	**$ 2,789,525**	**$ 58,077**	**$ 11,662**	**$ 4,980**	**$ 2,864,244**

Employee Contributions Reserve is a reserve that represents the total accumulated employee contributions of current active and deferred members plus credited interest. The reserve is accounted for separately due to the possibility of their return to the member upon separation from City employment. Terminated members' returns of contributions are paid from the Defined Benefit Pension Plan only.

General Reserve is a reserve that represents net earnings resulting from investment earnings, employer contributions, and realized and unrealized investment gains and losses. It also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(e) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the General Reserve category of plan net position. An allocation is made biannually from the General Reserve category to the employee contributions category of plan net position based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Implementation of Governmental Accounting Standards Board Statements

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures which does not conflict with or contradict other GASB pronouncements. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources and renames the resulting net assets as net position. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011. As of July 1, 2011, the Plan adopted the above GASB standards, which did not have a significant impact on its financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (3) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. As of June 30, 2014 and 2013, the Plan's derivative instruments are considered investments and not hedges for accounting purposes. The implementation of Statement No. 64, does not have a significant impact on the financial statements for the fiscal years ended June 30, 2014 and 2013. Disclosure details for investment derivative instruments can be found in the Derivatives subsection of Note 3.

GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*, addresses accounting and financial reporting requirements for pension plans. The provisions of GASB No. 67, separate financial reporting from funding and require changes in the notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of the total and net position liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate and increased investment activity disclosures. The implementation of GASB No. 67, did not significantly impact the accounting of accounts receivable and investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note 5 and in the Required Supplementary Information on pages 62-66. The Plan did not restate the financial statements for the year ended June 30, 2013 because the actuarial valuation used in the 2013 financial statements did not provide the required disclosures.

NOTE 3 – INVESTMENTS

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, foreign currency risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The Plan does not have a policy regarding interest rate risk.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2014 and 2013, concerning the fair value of investments and interest rate risk:

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

INVESTMENT MATURITIES AT FAIR VALUE

as of June 30, 2014 (Dollars in thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income								
Domestic Fixed Income:								
Asset backed securities	$ -	$ -	$ -	$ -	$ -	$ 89,724	$ 89,724	$ 86,453
Bank loans	-	-	-	-	-	53,138	53,138	50,000
Corporate bonds	-	-	1	67,522	118,057	-	185,580	182,983
FNMA	-	-	-	-	-	-	-	(14)
Guaranteed investment contracts	-	-	-	-	-	158,047	158,047	153,389
U.S. Treasury Inflation Protected Securities	-	-	-	-	-	-	-	-
Total Domestic Fixed Income	**-**	**-**	**1**	**67,522**	**118,057**	**300,908**	**486,489**	**472,811**
Collective Short-Term Investment	**138,241**	**-**	**-**	**-**	**-**	**-**	**138,241**	**131,475**
International Fixed Income	**-**	**-**	**-**	**-**	**-**	**82**	**82**	**58**
TOTAL FIXED INCOME	**$ 138,241**	**$ -**	**$ 1**	**$ 67,522**	**$ 118,057**	**$ 300,990**	**$ 624,812**	**$ 604,344**

INVESTMENT MATURITIES AT FAIR VALUE

as of June 30, 2013 (Dollars in thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income								
Domestic Fixed Income:								
Asset backed securities	$ -	$ -	$ -	$ -	$ -	$ 5,070	$ 5,070	$ 5,495
Bank loan	-	-	3,397	-	-	-	3,397	3,397
Collateralized mortgage obligations	-	-	-	-	553	8,440	8,993	8,813
Corporate bonds	591	427	3,417	14,620	9,639	6,437	35,131	37,473
FHLMC	-	-	-	-	-	12,754	12,754	12,998
FNMA	-	-	-	-	242	23,494	23,736	23,405
Guaranteed investment contracts	-	-	3,279	2,406	5,378	376	11,439	10,925
U.S. Treasury Inflation Protected Securities	5,783	-	-	34,280	8,946	5,477	54,486	55,606
Total Domestic Fixed Income	**6,374**	**427**	**10,093**	**51,306**	**24,758**	**62,048**	**155,006**	**158,112**
Collective Short-Term Investment	**393,467**	**-**	**-**	**-**	**-**	**-**	**393,467**	**403,875**
International Fixed Income	**-**	**-**	**446**	**1,916**	**2,527**	**669**	**5,558**	**5,440**
TOTAL FIXED INCOME	**$ 399,841**	**$ 427**	**$ 10,539**	**$ 53,222**	**$ 27,285**	**$ 62,717**	**$ 554,031**	**$ 567,427**

NOTE 3 – INVESTMENTS (Continued)

Custodial Credit Risk – Custodial credit risk is the risk that the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party, if that outside party fails. The Plan does not have a policy regarding custodial credit risk. As of June 30, 2014 and 2013, all of the Plan's investments, excluding invested securities lending collateral, are held in the Plan's name, and/or are not exposed to custodial credit risk. Securities lending collateral is invested in the lending agent's investment fund (see Note 4 – Securities Lending Program).

Credit Quality Risk – The Plan's investment policy allows for investments in a wide variety of domestic and international debt securities that may carry a high rating, low rating, or be unrated. Investment managers may, as part of their investment strategy, invest in securities where the issuer's ability or willingness to pay is limited. At times, these debt securities may be converted into other debt, equity, or hybrid securities that have different risk and return characteristics than the securities initially purchased. The Plan may hedge against the possible adverse effects of currency fluctuations on the Plan's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

The following tables provide information for the portfolio as of June 30, 2014 and 2013, concerning credit risk. Investments issued or explicitly guaranteed by the U.S. government of $54,486,000 as of June 30, 2013, are not considered to have credit risk and are excluded from the table below.

RATINGS OF FIXED INCOME INVESTMENTS
June 30, 2014 (Dollars in Thousands)

S&P Quality Rating	Fair Value	Fair Value as a % of Total Fixed Income
Not Rated	$ 624,812	100%

RATINGS OF FIXED INCOME INVESTMENTS
June 30, 2013 (Dollars in Thousands)

S&P Quality Rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 1,254	0.3%
AA	43,936	8.8%
A	14,369	2.9%
BBB	13,295	2.7%
BB	1,551	0.3%
Not rated	425,141	85.0%
TOTAL	**$ 499,546**	**100.0%**

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the Plan's investment policy permits individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuations on the underlying asset value.

The following tables provide information of the portfolio as of June 30, 2014 and 2013, concerning the fair value of investments and subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

June 30, 2014 (Dollars in Thousands)

Currency Name	Cash	Global Equity	Real Estate	International Currency Contract, Net	Total Exposure
Australian dollar	$ 15	$ 21,629	$ -	$ (8)	$ 21,636
British pound sterling	22	64,837	(37)	33	64,855
Canadian dollar	(51)	39,647	-	(26)	39,570
Chilean peso	-	2	-	-	2
Danish krone	-	8,121	-	-	8,121
Euro currency	222	83,457	2,245	63	85,987
Hong Kong dollar	-	8,093	-	-	8,093
Japanese yen	179	62,354	191	2	62,726
New Israeli sheqel	-	1,283	-	-	1,283
New Zealand dollar	-	566	-	-	566
Norwegian krone	-	4,457	-	-	4,457
Singapore dollar	-	3,403	-	-	3,403
South Korean won	-	3,465	-	-	3,465
Swedish krona	17	12,835	-	(1)	12,851
Swiss franc	-	27,047	-	-	27,047
TOTAL	**$ 404**	**$ 341,196**	**$ 2,399**	**$ 63**	**$ 344,062**

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

FOREIGN CURRENCY RISK ANALYSIS

June 30, 2013 (Dollars in Thousands)

Currency Name	Cash	Equity	International Currency Contracts, Net	Total Exposure
Australian dollar	$ 29	$ 20,310	$ (39)	$ 20,300
Brazilian real	32	-	-	32
British pound sterling	137	63,613	(353)	63,397
Canadian dollar	20	34,708	(46)	34,682
Chilean peso	1	-	-	1
Danish krone	14	3,585	-	3,599
Euro currency	1,963	70,446	(463)	71,944
Hong Kong dollar	102	7,370	-	7,472
Indian rupee	10	-	-	10
Israeli shekel	18	1,094	-	1,112
Japanese yen	1,513	61,050	(407)	62,156
New Zealand dollar	1	246	-	247
Norwegian krone	72	3,601	-	3,673
Singapore dollar	280	5,096	-	5,376
South Korean won	-	971	-	971
Swedish krona	276	8,204	(15)	8,465
Swiss franc	366	23,641	-	24,007
TOTAL	**$ 4,834**	**$ 303,935**	**$ (1,323)**	**$ 307,444**

Investment Concentration Risk – The Plan's investment policy specifies that investments shall be diversified with the intent to minimize the risk of large investment losses. In addition, the total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. No single investment management firm shall be authorized to manage more than 15% of the Plan's assets without Board approval, with the exception of passive management which can manage no more than 25% of the Plan's assets without Board approval. In addition, as a general rule, Plan assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval. As of June, 30, 2014 and 2013, the Plan did not hold investments in any one issuer, excluding U.S. government guaranteed investments that represented five percent or more of the total plan net position or total investments.

Derivatives – The Plan's investment policy allows for investments in derivative instruments, that comply with the Plan's objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The Plan is currently authorized to use derivative strategies, to equitize cash during portfolio transitions until physical securities are in place, and to reproduce or replicate a physical holding that corresponds to a Board approved policy benchmark. In addition, with the Plan's internal derivative policies, it is understood that the mandates of certain investment managers retained by the Plan may use derivatives. Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable.

The fair value of derivative investments that are not exchange traded, such as swaps and rights is determined by the Plan's custodian based on the base market value

NOTE 3 – INVESTMENTS (Continued)

of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2014 or 2013. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notional amounts for a portion of derivative instruments outstanding as of June 30, 2014 and 2013, classified by type, and the changes in fair value of such derivative instruments for the years then ended, as reported in the 2014 and 2013 financial statements, are as follows (amounts in thousands):

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2014		Fair Value at June 30, 2014		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
International currency forwards	Investment income	$ 827	International currency contracts, net	$ 63	$44,090
Futures long/short (domestic and foreign)	Investment income	4,579	Fixed income (domestic and foreign)	-	$34,685
Index futures long/short (domestic and foreign)	Investment income	12,855	Fixed income (domestic and foreign)	-	$167
Rights	Investment income	245	Global equity	-	2
Total Derivative Instruments		**$ 18,506**		**$ 63**	

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2013		Fair Value at June 30, 2013		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
International currency forwards	Investment loss	$ (2,773)	International currency contracts, net	$ (1,323)	$51,021
Futures long/short (domestic and foreign)	Investment loss	(3,470)	Fixed income (domestic and foreign)	-	$155,879
Index futures long/short (domestic and foreign)	Investment income	28,670	Equity income (domestic and foreign)	-	$939
Rights	Investment loss	(93)	Global equity	4	2
Warrants	Investment income	29	Global equity	-	-
Total Derivative Instruments		**$ 22,363**		**$ (1,319)**	

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2014 and 2013:

Counterparty Credit Risk – The Plan is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2013, the Plan held rights with fair values of approximately $4,000 with notional shares of 2 held by unrated counterparties.

The Plan's investments in forward currency contracts bear credit risk, in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2014, total commitments in forward currency contracts to purchase and sell international currencies were $44,090,000 and $44,090,000, respectively, with fair values of $260,000 and $197,000, respectively, held by counterparties with an S&P rating of at least AA-. As of June 30, 2013, total commitments in forward currency contracts to purchase and sell international currencies were $51,021,000 and $51,021,000, respectively, with fair values of $49,586,000 and $50,909,000, respectively, held by counterparties with an S&P rating of at least AA-.

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Plan's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Plan's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure, facilitate the settlement of international security purchase and sale transactions. At June 30, 2014 and 2013, the Plan's net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Plan's commitments relating to forward currency contracts are settled on a net basis. Foreign currency risk on these investments as of June 30, 2014 and 2013, are disclosed in the tables on pages 49-50.

NOTE 4 – SECURITIES LENDING PROGRAM

The Plan has historically participated in a securities lending program offered by the Plan's custodial bank, State Street Corporation (State Street).The program permitted State Street to lend the individual securities in the Plan's investment portfolio into a "collateral pool" under such terms and conditions as State Street deemed advisable and to permit the lent securities to be transferred into the name of the borrowers.

In exchange for participation in the collateral pool and the lent securities, the Plan would be compensated, and during the period 2003 through 2014, the program earned approximately $15.0 million in securities lending income.

Due to the 2008 financial crisis, certain assets in the securities lending pool in which the Plan participated became impaired resulting in the Plan's custodian bifurcating the collateral pool in 2010. The collateral pool was separated into a liquid pool which would maintain $1.00 per share Net Asset Value ("NAV") and a lower quality, duration pool ("Quality D Pool") with a floating NAV. On August 7, 2014, the Board voted to exit the State Street securities lending program, due to lower anticipated earnings as the Plan shifted a large portion of assets, from separately managed accounts enrolled in the securities lending program to commingled accounts that cannot be enrolled in the program. In order to exit the securities lending program, the Plan will incur an approximate loss of $550,000 due to the NAV of the Quality D Pool being below $1.00 at the time of redemption.

As of June 30, 2014, the Plan had no exposure to borrower credit risk related to the securities lending transactions, as State Street is responsible for replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, State Street is required to credit the Plan's account with the market value of such unreturned lent securities, if the lent securities are not returned by the borrower.

As of June 30, 2014, the Quality D and Liquidity pools totaled $703 million and $12.2 billion, respectively. The weighted average maturities for the Quality D and liquidity pools were 41.80 and 37.40 days, respectively. The Quality D pool included asset backed securities (99.22%) and other securities (0.78%). The liquidity pool included asset backed securities (13.08%), certificates of deposit (45.67%), bank notes (5.78%), commercial paper (7.24%), repurchase agreements (repos) (23.16%) and other securities (5.08%).

As of June 30, 2013, the pools consist of Quality D and Liquidity totaling $903 million and $13.3 billion, respectively. The weighted average maturities for the Quality D and Liquidity pools were 43.89 and 28.78 days, respectively. The Quality D pool included asset backed securities (99.38%) and other securities (0.62%). The Liquidity pool included asset backed securities (13.68%), certificates of deposit (45.94%), bank notes (2.78%), commercial paper (13.51%), repurchase agreements (repos) (19.41%) and other securities (4.68%).

As of June 30, 2014, the underlying securities loaned by the Plan as a whole amounted to approximately $55,109,000. The Plan received cash collateral and non-cash collateral totaling $51,670,000 and $4,699,000, respectively, at carrying cost. The Plan's share of the Liquidity pool at June

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

30, 2014 was at $1.0001 or $34,065,000, and $0.9706 or $17,090,000, for the Quality D Pool, respectively, on a mark to market basis. The NAV of less than $1.00 for the Quality D pool is due to the decline in the fair value of assets held by the pool. The NAV of $0.9706 of the duration cash collateral pool results in an unrealized loss of approximately $518,000 for the Plan. The Plan's investment in the liquidity and duration cash collateral investment pools are presented in the statement of net plan position at their respective NAV or $51,155,000. The unrealized loss of $514,000 for the duration pool is reflected in the securities lending income earnings line of the statement of changes in plan net position. The Plan is exposed to market risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

Notes to Financial Statements *(Continued)*

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

SECURITIES LENDING – INVESTMENTS LENT AND COLLATERAL RECEIVED

(at Fair Value in Thousands)

	2014		2013	
Type of Investment Lent				
For cash collateral				
Domestic corporate bonds	$	-	$	444
Domestic equity securities		48,233		410,429
International equity securities		2,177		10,340
Total lent for cash collateral		50,410		421,213
For non-cash collateral:				
Domestic equity securities		4,699		569
U.S. treasury securities		-		8
Total lent for non-cash collateral		4,699		577
Total Securities Lent	**$**	**55,109**	**$**	**421,790**
Type of Collateral Received				
Cash collateral *	$	51,155	$	426,902
Non-cash collateral				
For lent domestic equity securities		4,791		588
Total non-cash collateral		4,791		588
Total Collateral Received	**$**	**55,946**	**$**	**427,490**

* *Amount represents the mark-to-market value of the cash collateral pool at 100.01% for the liquidity portfolio and 97.06% for the duration portfolio for fiscal year 2014. In 2013, the net asset values were 100.00% and 95.45%.*

NOTE 5 – DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS

The components of the City's net pension liability (i.e., the Plan's total pension liability determined in accordance with GASB No. 67 less the plan fiduciary net position) as of June 30, 2014, were as follows (dollars in thousands):

Total pension liability	$	3,737,364
Plan fiduciary net position	$	3,168,173
City's net pension liability	$	569,191
Plan fiduciary net position as a percentage of the total pension liability		84.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Board's actuary to determine appropriate revision to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in 2013 and the next experience study is scheduled to be conducted in 2015.

The Total Pension Liability as of June 30, 2014, is based on results of an actuarial valuation date of June 30, 2013, and rolled-forward to June 30, 2014, using generally accepted actuarial procedures.

NOTE 5 – DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

A summary of the actuarial assumptions used in the latest actuarial valuation used to determine the total pension liability is shown.

Description	Method/Assumption
Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of pay, closed, layered; equivalent single amortization period 13.4 years
Remaining amortization period	(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003, valuation amortized over the next 4 years; (2) Prior service cost for the February 4, 1996, benefit improvement amortized over the next 4 years; (3) Actuarial gains and losses and plan changes are amortized over 16 years from the date of each such event, beginning with the June 30, 2005, valuation; and (4) Actuarial methods and assumption changes are amortized over 20 years from the date of each such event, beginning with the June 30, 2011, valuation.
Actuarial asset valuation method	5 year smoothed market with a 80% to 120% Market Value Corridor
ACTUARIAL ASSUMPTIONS:	
Assumed rate of return on investments	7.125% per annum (net of investment expenses)
Post-retirement mortality	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 3 years)
(a) Service:	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years.
(b) Disability:	RP-2000 Combined Healthy Male Mortality Table with no collar adjustment, projected 10 years, set back 2 years.
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2013, actuarial experience analysis
Salary increases	
Wage inflation	2.00% for FY 2015 and 2016, and 3.50% thereafter.
Merit increase	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%
Cost of Living Adjustment	Tier 1 – 3% per year Tier 2 – 1.5% per year

The assumption for the long-term expected rate of return on pension plan investments of 7.125%, was selected by estimating the median nominal rate of return based on long-term capital market assumptions, provided by the plan's investment consultant, including nominal expected rates of return for each asset class and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2014, (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return (net of fees)
Global and private equity	37%	6.14%
Fixed income	25%	2.86%
Inflation-linked assets	17%	4.32%
Absolute return strategies	20%	3.09%
Cash	1%	0.50%
Total Arithmetic Expected Return	**100%**	5.40%
Total Geometric Expected Return		4.70%

The discount rate used to measure the total pension liability was 7.125%. It is assumed that Plan member contributions and City contributions will be made based on the actuarially determined rates based on the Board's funding policy. Based on those assumptions, the Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The June 30, 2013 valuation included a change in the expected rate of return from 7.25% to 7.125% and a change in the payroll wage inflation assumption from 0.00% for all years to 2.00% for FY 2015 -2016, and 3.50% thereafter.

In accordance with GASB Statement No. 67, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability of the City, calculated using the discount rate of 7.125%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.125%) or 1.00% higher (8.125%) than the current rate:

	1% Decrease (6.125%)	Current Discount Rate (7.125%)	1% Increase (8.125%)
Total pension liability	$ 4,274,449	$ 3,737,364	$ 3,298,686
Plan fiduciary net position	3,168,173	3,168,173	3,168,173
Net pension liability	$1,106,276	$569,191	$130,513
Plan fiduciary net position as a percentage of the total pension liability	74.1%	84.8%	96.0%

Contributions to the Defined Benefit Pension Plan by both the City and the participating employees are based upon an actuarially determined percentage of each employee's pensionable and earnable salary sufficient to provide adequate assets to pay benefits when due. On June 24, 2008, City Council adopted ordinance No. 28332 amending Chapter 3.36 of Title 3 of the San José Municipal Code, to provide the City with the option to make lump sum payments of City required contributions to the Police and Fire Department Retirement Plan.

In January 2011, the Board adopted a funding policy setting the required contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll, if actual payroll exceeds the actuarial payroll, reported in the valuation to the actual payroll for the fiscal year. The required contribution determined in the June 30, 2012 valuation for the fiscal year ended June 30, 2014, was the greater of $119,561,000, (if paid at the beginning of the fiscal year) or 66.79% for Fire members and 65.31% for Police Tier 1 and Tier 2 members of actual payroll for the fiscal year. The total actuarial payroll for Police Tier 1, Police Tier 2 and Fire for the fiscal year was $187,959,000 ($116,454,000 for Police Tier 1, Police Tier 2 members and $71,505,000 for Fire members). The actual payroll for Fire members in the fiscal year of $72,086,000, was more than the actuarial payroll of $71,505,000, so the City paid an additional $394,000, in the next year towards pension contributions for Fire members over the Police Tier 1, Police Tier 2 and Fire prepaid required annual contribution of $119,561,000, $2,863,000 of implicit subsidy, and $161,000 of additional military contributions were paid as of July 1, 2013, for a total of $122,979,000, excluding year end contributions receivable and prior year contribution adjustments.

San José City Council Ordinance No. 29266 provides Police Tier 2 pension benefits for new Plan members hired on

NOTE 5 – DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

or after August 4, 2013. The new tier includes significant benefit changes from the existing Police Tier 1 plan as described in Note 1. In addition, the contribution rate for Police Tier 2 members includes a change in the cost sharing between the City and active Police Tier 2 members, which is a 50/50 split of all costs, including UAL. Currently, Police Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Police Tier 1 members. The responsibility for funding the unfunded actuarial accrued liability (UAAL) is generally not shared with the Police Tier 1 and Fire employees. The prepayment made by the City on July 1, 2013 was not adjusted when Police Tier 2 became effective.

The required employer contribution determined in the June 30, 2011, valuation for the fiscal year ended June 30, 2013, was the greater of $105,297,000 (if paid at the beginning of the fiscal year) or 58.43% for Fire members and 56.57% for Police members of actual payroll for the fiscal year. The total actuarial payroll for Police and Fire for the fiscal year was $190,726,000, ($121,735,000 for Police members and $68,991,000 for Fire members). The actual payroll for Fire members in the fiscal year of $70,031,000 was more than the actuarial payroll of $68,991,000, so the City paid an additional $608,000 in pension contributions for Fire members over the Police and Fire prepaid required annual contribution of $105,297,000 as of July 1, 2012 for a total of $105,905,000, excluding year end contributions receivable and prior year contribution adjustments.

Contributions to the Pension Plan for both the City and the participating members are based upon an actuarially determined percentage of each member's covered payroll sufficient to provide adequate assets to pay benefits when due. The Plan transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations. The contribution rates for fiscal years ended June 30, 2014 and 2013 were based on the actuarial valuations performed on June 30, 2012 and June 30, 2011, respectively, except for the period of June 23 through June 30, 2013, which were based on the June 30, 2013 valuation.

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2014 and 2013, were as follows:

Period	City – Board Adopted *			Member		
	Police Tier 1	Police Tier 2	Fire	Police Tier 1	Police Tier 2	Fire
06/23/14 - 06/30/14	72.14%	10.80%	73.48%	11.26%	10.80%	11.64%
07/01/13 - 06/22/14	65.32%	10.98%	66.79%	11.64%	10.98%	11.72%
06/23/13 - 06/30/13	65.32%		66.79%	11.64%		11.72%
07/01/12 - 06/22/13	56.57%		58.43%	11.13%		11.21%

** The actual contribution rates paid by the City for fiscal years ended June 30, 2014 and June 30, 2013, differed due to the City funding the required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.*

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLANS CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

For the fiscal year ended June 30, 2014, Police Department and Fire Department employer contributions were made to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, respectively. Employee postemployment healthcare contributions were made to the Postemployment Healthcare 401(h) plan. It is anticipated that employee contributions to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan will follow the Plan's receipt of an IRS private letter ruling on the tax qualification of the new Section 115 Trust, which was received on July 9, 2014. Contributions to the Plan prior to June 26, 2011 for Fire members and June 28, 2009 for Police members, were based on the Board's 10-year cash flow funding policy. Effective June 26, 2011, the Fire members entered into a Memorandum of Agreement (MOA) with the City to phase-in to fully contributing the GASB Statement No. 43 annual required contribution (ARC) over a five year period; fiscal year 2013-2014, was the third year of the phase-in. Effective June 28, 2009, the Police members of the Plan entered into a MOA with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the ARC over the next five years; fiscal year 2013-2014, was the fifth year of the phase-in.

In both MOAs, the City and members of the Plan agreed that the member and City cash contribution rate shall not have an incremental increase of more than 1.25% and 1.35%, of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed 10% for the members or 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11%, respectively.

In January 2011, the Board adopted a funding policy setting the funding policy contribution amount to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll, if actual payroll exceeds the actuarial payroll, reported in the valuation to the actual payroll for the fiscal year. The funding policy contribution amount determined in the June 30, 2012 valuation for fiscal year ending June 30, 2014, was the greater of $17,093,000 (if paid at the beginning of the fiscal year) or 10.31% for Police members and 7.97% for Fire members of actual payroll for the fiscal year.

The total actuarial payroll for Police and Fire for the fiscal year was $187,959,000 ($116,454,000 for Police members and $71,505,000 for Fire members). The actual payroll for Fire members in the fiscal year of $72,086,000 was more than the actuarial payroll of $71,505,000, so the City paid an additional $55,000 in postemployment healthcare contributions for Fire members over the prepayment amount of $17,093,000 as of July 1, 2013, excluding year end contributions receivable and prior year contribution adjustments, for a total of $17,267,000 or $11,712,000 for the Police Department Postemployment Healthcare Plan and $5,555,000 for the Fire Postemployment Department Healthcare Plan.

The funding policy contribution amount determined in the June 30, 2011 valuation for fiscal year ending June 30, 2013, was the greater of $15,739,000 (if paid at the beginning of the fiscal year) or 8.96% for Police members and 6.62% for Fire members of actual payroll for the fiscal year. The actual payroll for the fiscal year of $184,746,000 was less than the actuarial payroll of $190,726,000, resulting in an annual contribution of $15,739,000, as of July 1, 2012, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments.

The City and the participating member's contribution rates in effect during the fiscal years ended June 30, 2014 and 2013, for the Postemployment Healthcare Plans were as follows:

Period	City – Board Adopted *		Member	
	Police	Fire	Police	Fire
06/23/14 - 06/30/14	11.00%	9.27%	10.00%	8.49%
07/01/13 - 06/22/14	10.31%	7.96%	9.51%	7.35%
06/23/13 - 06/30/13	10.31%	7.96%	9.51%	7.35%
07/01/12 - 06/22/13	8.96%	6.62%	8.26%	6.11%

** The actual contribution rates paid by the City for fiscal years ended June 30, 2014 and June 30, 2013, differed due the City funding the annual required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.*

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLANS CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The funded status of the Postemployment Healthcare Plans as of June 30, 2013, the most recent actuarial valuation date, is as follows: (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2013	$75,035	$700,525	$625,490	11%	$184,645	339%

As of June 30, 2013, the Postemployment Healthcare Plan's most recent actuarial valuation combined the 401(h) and 115 Subtrusts within the valuation, indicating the Postemployment Healthcare Plan's UAAL decreased by $305.4 million primarily due to the increase in the discount rate and decreases in claims cost assumptions. The discount rate used for GASB purposes increased from 4.40% in the June 30, 2012 OPEB valuation to 6.00% in the June 30, 2013 OPEB valuation. The Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.50%) and the expected return on the Plan's invested assets (7.125%) resulting in a blended discount rate of 6.00%. Changes in claims cost assumptions refer to the changes in expected current and future healthcare claims and expense costs based on the 2013 and 2014 medical premium experience. This also includes the effect of updating the claims cost trend assumption.

As of June 30, 2012, the Postemployment Healthcare Plan's UAAL decreased by $12.2 million, primarily due to changes in the medical plans offered and assumptions, as recommended by the Board's actuary. The discount rate used for GASB purposes decreased from 5.70% in the June 30, 2011 OPEB valuation to 4.40% in the June 30, 2012 OPEB valuation. The Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.50%) and the expected return on the Plan's invested assets (7.25%) resulting in a blended discount rate of 4.40%. Medical plan changes were effective January 1, 2012, eliminating the $10 co-pay plans, as well as the change to $25 co-pays for the Kaiser Medicare plan. In addition, medical plan changes effective January 1, 2013, included a new Kaiser $1500 Deductible HMO, which became the lowest cost plan available to active employees and therefore the basis for the retiree premium subsidy. Other lower cost medical plans became available to non-Medicare eligible members. These medical plan changes greatly affected the medical plan election assumption used by the actuary as more retirees selected the lower cost medical plans. The June 30, 2012, actuarial valuation of the Postemployment Healthcare Plan did not reflect the Section 115 subtrusts, the Police Department Postemployment Healthcare Plan or the Fire Department Postemployment Healthcare Plan, as those plans had no financial activity as of the June 30, 2012 valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the Plan provisions and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used, include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The contribution rates for fiscal years ended June 30, 2014 and 2013, were based on the actuarial valuations performed on June 30, 2012 and 2011, respectively, except for the period June 22 through June 30, 2014, which were based on the June 30, 2013 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Notes to Financial Statements *(Continued)*

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLANS CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

Description	Method/Assumption		
Valuation date	June 30, 2013	June 30, 2012	June 30, 2011
Actuarial cost method	Entry age normal, level of percent of pay	Entry age normal, level of percent of pay	Entry age normal, level of percent of pay
Amortization method	30 years, level percent of pay	30 years, level percent of pay	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2013, open	30 years as of June 30, 2012, open	30 years as of June 30, 2011, open
Actuarial asset valuation method	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor
ACTUARIAL ASSUMPTIONS:			
Discount rate	6.00% †	4.40% †	5.70% †
Projected payroll increases Wage inflation	2.00% for FY 2014 and 2015, and 3.50% thereafter.	0.00% for FY 2013 and 2014, and 3.50% thereafter.	0.00% for FY 2013 and 2014, and 3.50% thereafter.
Merit increase	Merit component added based on an individual's years of service ranging from 9.25% to 2.00%	Merit component added based on an individual's years of service ranging from 8.00% to 2.25%	Merit component added based on an individual's years of service ranging from 8.00% to 2.25%
HEALTH CARE COST TREND RATE:			
Medical	The valuation assumes that future medical inflation will be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 8.80% to 4.50% per annum graded down over a 14 year period for medical-pre age 65 and 6.63% to 4.5% per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 9.17% to 4.50% per annum graded down over a 15 year period for medical-pre age 65 and 6.83% to 4.5% per annum graded down over a 15 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.00%	Dental inflation is assumed to be 4.50%	5%; Dental inflation is assumed to be 4.50% graded down to 4% over a three year period

† Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the portion of the ARC contributed by the City for fiscal year.

The schedules presented as required supplementary information following the notes to the financial statements present multiyear trend information. The Schedule of Funding Progress for the Postemployment Healthcare Plans presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Postemployment Healthcare Plans present trend information about the amounts contributed to the plan by the City in comparison to the annual required contribution (ARC) determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Notes to Financial Statements *(Continued)*

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Commitments – As of June 30, 2014, the Plan had unfunded commitments to contribute capital for real estate investments in the amount of $53,791,000, private equity investments in the amount of $98,271,000 and opportunistic credit investments in the amount $134,417,000.

Contribution overstatement – On January 14, 2009, the Plan was advised by the City's Finance Department that a portion of non-pensionable Fair Labor Standards Act ("FLSA") earnings for Fire members of the Plan had been erroneously transmitted and paid into the Plan by the Fire members and City for a period of approximately 10 years. As of February 2009, the City has corrected the transmittal error on a go forward basis. The City's FLSA overstatement correction amounts were reviewed by the City's internal auditor and the Plan's external accountants. The Plan's external accountants identified variances in the estimated overstatements.

In fiscal year 2012, the City's Finance Department reviewed and prepared revised overstatement amounts. On June 1, 2012, the City's Finance Department refunded approximately $252,000 of overstated contributions to active members. The City is currently working to determine the overstated amounts for separated and/or retired members. The impact of the overstated pensionable earnings, due to the FLSA transmittal error, on retirement benefits is undetermined at this time.

NOTE 8 –SUBSEQUENT EVENTS

Private Letter Ruling – On July 9, 2014, the City obtained a private letter ruling from the Internal Revenue Service on the tax qualification of the new section 115 trust. The Board is currently working with the City to determine when employee contributions to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan may commence.

Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS - DEFINED BENEFIT PENSION PLAN (unaudited)

Total Pension Liability	**FYE 2014**
Service cost (middle of year)	$ 75,030
Interest (includes interest on service cost)	251,701
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(167,397)
Net Change in Total Pension Liability	**159,334**
Total Pension Liability - Beginning	**3,578,031**
Total Pension Liability – Ending	**$ 3,737,364**
Plan Fiduciary Net Position	
Contributions – employer	$ 123,583
Contributions – member	21,115
Net investment income	404,978
Benefit payments, including refunds of member contributions	(167,397)
Administrative expense	(3,631)
Net Change in Plan Fiduciary Net Position	**$ 378,648**
Plan Fiduciary Net Position – Beginning	**2,789,525**
Plan Fiduciary Net Position – Ending	**$ 3,168,173**
Net Pension Liability – Ending	**$ 569,191**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	**84.77%**
Covered Employee Payroll	**$ 187,959**
Net pension liability as a percentage of covered employee payroll	**302.83%**

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information *(Continued)*

SCHEDULE OF EMPLOYER CONTRIBUTIONS – DEFINED BENEFIT PENSION PLAN (unaudited)

(Dollar Amounts in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 123,583	$ 105,297	$ 121,008	$ 77,918	$ 52,315	$ 53,103	$ 56,372	$ 51,192	$ 50,002	$ 48,253
Contributions in relation to the actuarially determined contribution	123,583	105,297	121,009	77,918	52,315	53,103	56,372	51,192	50,002	48,253
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 187,959	$ 190,726	$ 251,058	$ 255,223	**	$ 227,734	**	$ 210,018	**	$ 202,222
Contributions as a percentage of covered employee payroll	65.75%	55.21%	48.20%	30.53%		23.32%		24.38%		23.86%

** Acturial valuations have been performed biennially through June 30, 2007. Effective with the June 30, 2009 valuation, which determined contribution rates for fiscal year 2011, the plan transitioned to annual actuarial valuations.

NOTE TO SCHEDULE

Valuation date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005	June 30, 2003
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	5- year smoothed market	5- year smoothed market	5- year smoothed market	5- year smoothed market	5 – year smoothed market	5- year smoothed market	5- year smoothed market
Discount rate	7.25%	7.5%	7.75%	8%	8%	8%	8%

Required Supplementary Information *(Continued)*

NOTE TO SCHEDULE (Continued)

Valuation date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005	June 30, 2003
Salary increases	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service	0.00% for FY 2012 and 2013, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service	.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service	.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service	.5% plus merit component based on length of service ranging from 9.% for new hires to 5% for members with 8 or more years of service	1% plus merit component based on length of service ranging from 10% for new hires to 4.75% for members with 7 or more years of service	1.5% plus merit component based on length of service ranging from 10.10% for new hires to 4.7% for members with 7 or more years of service
Amortization payment growth rate	3.5%	3.5%	3.5%	3.5%	3.5%	3%	3%
COLA	3.0% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire
Mortality	Male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and setback two years.	Male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and setback two years.	Male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2006, setback four years.	Male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2005, setback four years.	Male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2004, setback three years.	The 1994 male group annuity mortality table, with four-year setback, is used for male members. The 1994 female group annuity mortality table with one year set forward is used for female members.	The 1994 male group annuity mortality table, with four-year setback, is used for male members. The 1994 female group annuity mortality table with one year set forward is used for female members.

SCHEDULE OF INVESTMENT RETURNS - DEFINED BENEFIT PENSION PLAN (Unaudited)

	2014
Annual money-weighted rate of return, net of investment expense	13.5%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information *(Continued)*

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLANS (Unaudited)

(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll[1]	UAAL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
06/30/2007	$ 45,393	$ 666,228	$ 620,835	7%	$ 227,734	273%
06/30/2009	55,618	761,604	705,986	7%	243,196	290%
06/30/2010	58,586	946,308	887,722	6%	222,699	399%
06/30/2011	60,709	1,003,795	943,087	6%	190,726	494%
06/30/2012	66,385	997,321	930,936	7%	187,959	495%
06/30/2013	75,035	700,525	625,490	11%	184,645	339%

[1] *Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2013, 2012, 2011 and the 2007 valuation. The amount presented for the June 30, 2009 and 2010, valuations represents actual annual covered payroll.*
Actuarial valuations have been performed biennially through June 30, 2009; effective June 30, 2010 the Plan transitioned to annual valuations.

As of June 30, 2013, the Plan's most recent actuarial valuation, the Postemployment Healthcare Plan's UAAL decreased by $305.4 million, primarily due to the increase in the discount rate and decreases in claims cost assumptions. The discount rate, used for GASB purposes, increased from 4.40% in the June 30, 2012 OPEB valuation to 6.00% in the June 30, 2013 OPEB valuation. The Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.50%) and the expected return on the Plan's invested assets (7.125%), resulting in a blended discount rate of 6.00%. The medical plan changes effective January 1, 2013 included a new Kaiser $1500 Deductible HMO, which became the lowest cost plan available to active employees and therefore the basis for the retiree premium subsidy. Other lower cost medical plans became available to non-Medicare eligible members. In addition, the retiree medical benefits are split evenly between the employees and the City, while the retiree dental benefits are split with the City contributing 75% of the total contribution and employees contributing 25% of the total contribution.

As of June 30, 2012, the Postemployment Healthcare Plan's UAAL decreased by $12.2 million primarily due to changes in the health plans offered and assumptions, as recommended by the Board's actuary. The discount rate, used for GASB purposes, decreased from 5.70% in the June 30, 2011 OPEB valuation to 4.40% in the June 30, 2012 OPEB valuation. The Postemployment Healthcare Plan's actuarially assumed earnings rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (3.50%) and the expected return on the Plan's invested assets (7.25%) resulting in a blended actuarially assumed earnings rate of 4.40%. Medical plan changes were effective January 1, 2012, eliminating the $10 co-pay plans, as well as the change to $25 co-pays for the Kaiser Medicare plans. In addition, medical plan changes effective January 1, 2013 included a new Kaiser $1500 Deductible HMO, which became the lowest cost plan available to actives and therefore the basis for the retiree premium subsidy. Other lower cost medical plans became available to non-Medicare eligible members. These medical plan changes affected the medical plan election assumption used by the actuary, as more retirees selected the lower cost medical plans. The June 30, 2012 actuarial valuation of the Postemployment Healthcare Plan does not reflect the Police Department Postemployment Healthcare Plan or the Fire Department Postemployment Healthcare Plan as those plans had no financial activity as of the valuation date.

As of June 30, 2011, the Postemployment Healthcare Plan's UAAL increased by $55 million, primarily due to the passage of time and accrual of benefits by active members. The Postemployment Healthcare Plan actuarially assumed earnings rate was based on a blended rate that ranges between the expected return on the City's unrestricted assets (4.0%) and the expected return on the Postemployment Healthcare Plan invested assets (7.50%), resulting in a blended actuarially assumed earnings rate of 5.70%. The June 30, 2011 valuation included a reduction in the expected return on the City's unrestricted assets from 4.75% to 4.00% and the Postemployment Healthcare Plan expected rate from 7.75% to 7.50%. The expected rate of return of 7.5% was only net of investment manager fees. Actuarial assumption changes in the June 30, 2011 valuation also included changes in expected current and future healthcare claims and expense costs, including the addition of the $25 co-pay plans; trend assumptions for per person costs; and demographic assumptions changes as determined in the June 30, 2011 experience study.

As of June 30, 2010, the Postemployment Healthcare Plan AAL increased by $185 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2010 experience study. The Postemployment Healthcare Plan's UAAL increased from $705.9 million as of June 30, 2009 to $887.7 million as of June 30, 2010. Changes to the UAAL were due to increased health care trend rate assumptions and a decrease in the Postemployment Healthcare Plan's actuarially assumed earnings rate from 8.00% (net of expenses) as of June 30, 2009 to 7.75% (net of expenses) as of June 30, 2010. In addition, the June 30, 2010 valuation reflects the Plan's return to an 80-120% market value corridor from the one year 70-130% market value corridor increase in the June 30, 2009 valuation.

As of June 30, 2009, the Postemployment Healthcare Plan's AAL increased by $95.4 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $620.8 million as of June 30, 2007 to $706.0 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the last two years and changes in the actuarial assumptions including the one year increase in the Plan's 80-120% market value corridor to 70-130%.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(Dollars in thousands)

Fiscal Year Ended	Annual Required Contributions (1)	Actual Contributions (2)	Percentage Contributed
06/30/2009	$ 50,119	$ 9,888	20%
06/30/2010	50,438	11,284	22%
06/30/2011	62,322	17,001	27%
06/30/2012	62,079	21,205	34%
06/30/2013	55,824	15,808 (3)	28%
06/30/2014	32,798	17,267 (4)	53%

(1) *The ARC provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions and include the actuarially determined implicit subsidy amounts of $3,006 for 2008; $3,175 for 2009; $4,262 for 2010; $4,939 for 2011; $4,750 for 2012; $172 for 2013 and $2,863 for 2014. The actual contributions include year-end contributions receivable and prior year contribution adjustments. In addition, beginning with fiscal year 2011 the implicit subsidy amounts have also been included in actual contributions.*

(2) *Actual contributions for the fiscal years ended June 30, 2008 through 2012, were made to the Postemployment Healthcare 401(h) Plan.*

(3) *All employer contributions to the Postemployment Healthcare Plans were made to the new Section 115 Subtrusts in fiscal year 2012-2013. Actual contributions for the fiscal year ended June 30, 2013 include contributions of $11,074 and $4,734 to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, respectively.*

(4) *All employer contributions to the Postemployment Healthcare Plans were made to the new Section 115 Subtrusts in fiscal year 2013-2014. Actual contributions for the fiscal year ended June 30, 2014 include contributions of $11,712 and $5,555 to the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan, respectively.*

Other Supplemental Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

June 30, 2014 (Dollars in Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
Assets			
Receivables:			
Employee contributions	$ 336	$ 152	$ 488
Employer contributions	1,936	1,541	3,477
Brokers and others	2,242	(444)	1,798
Accrued investment income	2,618	1,012	3,630
Total receivables	**7,132**	**2,261**	**9,393**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	300,316	165,631	465,947
International fixed income	52	29	81
Collective short term investments	87,170	48,097	135,267
Absolute returns	256,447	141,436	397,883
Global equity	562,849	317,537	880,386
Private equity	159,386	87,905	247,291
Opportunistic	162,724	89,746	252,470
Real assets	359,904	198,495	558,399
Real estate	144,925	79,930	224,855
International currency contracts, net	40	22	62
Securities lending cash collateral investment pool	32,302	17,920	50,222
Total investments	**2,066,115**	**1,146,748**	**3,212,863**
TOTAL ASSETS	**2,073,247**	**1,149,009**	**3,222,256**
Liabilities			
Payable to brokers	2,427	(471)	1,956
Securities lending collateral due to borrowers	32,627	18,101	50,728
Other liabilities	875	524	1,399
TOTAL LIABILITIES	**35,929**	**18,154**	**54,083**
Plan Net Position - Restricted For:			
Pension benefits	1,818,120	971,405	3,168,173
TOTAL PLAN NET POSITION	**$ 2,037,318**	**$ 1,130,855**	**$ 3,168,173**

Other Supplemental Information *(Continued)*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION

For the Fiscal Year Ended June 30, 2014 (Dollars in Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
Additions			
Contributions:			
Employee	$ 14,468	$ 6,647	$ 21,115
Employer	69,920	53,663	123,583
Total contributions	**84,388**	**60,310**	**144,698**
Investment income:			
Net appreciation in fair value of investments	221,604	121,748	343,352
Interest income	25,670	14,143	39,813
Dividend income	20,087	11,050	31,137
Net rental income	2,415	1,333	3,748
Less investment expense	(8,848)	(4,862)	(13,710)
Net investment income before securities lending income	**260,928**	**143,412**	**404,340**
Securities lending income:			
Earnings	561	300	861
Rebates	(4)	(2)	(6)
Fees	(140)	(77)	(217)
Net securities lending income	**417**	**221**	**638**
Net investment income	**261,345**	**143,633**	**404,978**
TOTAL ADDITIONS	**345,733**	**203,943**	**549,676**
Deductions			
Retirement benefits	118,338	39,297	157,635
Death benefits	4,983	3,755	8,738
Refund of contributions	814	210	1,024
Administrative expenses and other	2,400	1,231	3,631
TOTAL DEDUCTIONS	**126,535**	**44,493**	**171,028**
NET INCREASE	**219,198**	**159,450**	**378,648**
Plan Net Position - Restricted For Pension Benefits:			
BEGINNING OF YEAR	**1,818,120**	**971,405**	**2,789,525**
END OF YEAR	**$ 2,037,318**	**$ 1,130,855**	**$ 3,168,173**

Other Supplemental Information *(Continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2014 and 2013

	2014			2013
	Original Budget	Actual	(Over) Under Budget	Actual
Personnel services	$ 2,655,857	$ 2,038,376	$ 617,481	$ 1,899,844
Non-personnel/equipment	795,939	640,594	155,345	654,351
Professional services	1,566,323	1,054,296	512,027	947,370
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 5,018,119**	**$ 3,733,266**	**$ 1,284,852**	**$ 3,501,565**

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2014 and 2013

Firm	Nature of Service	2014	2013
Alliance Resource Consulting LLC	Executive recruitment	$ 7,194	$ 31,704
Center for Executive Solutions	Executive training	-	3,170
Cheiron, Inc.	Actuarial consultant	176,925	160,175
Cortex	Governance consultant	77,272	53,487
Financial Knowledge/Peter Sepsis	Educational services	11,232	11,404
Ice Miller, LLC	Tax counsel	27,536	17,986
L.R. Wechsler, LTD	Pension administration selection consulant	1,545	31,738
Levi, Ray, & Shoup	Web development and maintenance	15,301	13,350
Levi, Ray, & Shoup	Programing changes and business continuance services	5,912	6,680
Macias Gini & O'Connell LLP	External auditors	69,666	28,360
Medical Director/Other Medical	Medical consultants	157,801	159,968
Pension Benefit Information	Reports on deceased benefit recipients	1,848	2,476
ReedSmith, LLP	Legal counsel	265,370	295,301
Robert Half Mangement Resources	Temporary staff	-	1,688
Saltzman & Johnson	Legal counsel	144,372	24,940
Silicon Valley Professionals	Temporary staff	68,692	66,863
Trendtec, Inc.	Temporary staff	23,630	38,080
TOTAL		**$ 1,054,296**	**$ 947,370**

Other Supplemental Information *(Continued)*

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2014 and 2013

Investment Managers' Fees	2014	2013
Absolute return	**$ 1,355,347**	**$ -**
Collective short-term	**382,737**	**-**
Global equity	**1,816,385**	**571,193**
Global fixed income	**1,311,297**	**2,749,035**
Opportunistic	**1,170,565**	**2,118,931**
Private equity	**1,929,733**	**1,188,930**
Real assets	**2,773,626**	**1,085,184**
Real estate	**1,339,517**	**916,604**
TOTAL INVESTMENT MANAGERS' FEES	**12,079,207**	**8,629,877**
Other Investment Fees		
Custodian	210,151	206,669
Investment consultants	1,367,663	975,841
Investment legal fees	323,353	184,483
Proxy voting	31,242	18,748
Total other investment service fees	**1,932,409**	**1,385,741**
TOTAL INVESTMENT EXPENSES	**$ 14,011,617**	**$ 10,015,618**

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Investment Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

NEPC, LLC

ALLAN MARTIN
PARTNER

October 9, 2014

Mr. Roberto Pena
Director of Retirement Services
City of San Jose Police and Fire Department Retirement Plan
1737 North First Street
San Jose, CA 95112

Dear Mr. Pena,

The overall objective of the City of San Jose Police and Fire Department Retirement Plan (the "Plan') is to ensure continued access to retirement, disability and survivorship benefits for current and future Plan participants. To ensure a solid foundation for the future of the Plan, the Board of Administration carefully plans and implements an investment program designed to produce superior long-term investment returns while prudently managing the risk of the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Administration, at least annually, to reflect the Plan's actuarial assumptions, accrued liabilities, and the investment outlook. Following is a report on the performance of the Plan for the fiscal year ending June 30, 2014.

Although investment manager performance is a key component of the future "success" of the Plan, the overall asset allocation policy will be the primary determinant of such "success". Modern Portfolio Theory maintains that long-term investors, who assume prudent levels of risk, will be rewarded with incremental returns above lower returning, risk-free assets (i.e. T-Bills). The Plan, in its asset allocation policy, is required to satisfy the need to pay accumulated/earned retirement benefits today while preparing for "uncertain" future benefits. This balancing of short-term versus long-term needs is a key consideration in the overall portfolio construction process. To facilitate the balance of short-term versus long-term objectives, the Board of Administration has adopted a diversified asset allocation structure that includes traditional asset classes such as U.S. and non-U.S. equities and fixed income, as well as alternative asset classes such as private equity, absolute return strategies or hedge funds, real estate, inflation-linked assets, and opportunistic investment strategies across global credit markets.

Fiscal Year 2014 Market Review

The multi-year valuation expansion continued in growth assets throughout fiscal year 2014. Markets were resilient to domestic political tensions, a severe downward revision of third quarter GDP and geopolitical conflicts in Eastern Europe and the Middle East. Domestic equities, as measured by the S&P 500 Index, posted its sixth consecutive quarterly rise, the longest streak since 1998. Fixed income investments continued to rally, driven by monetary policy as yield seeking investors bid up lower credit quality issues resulting in high yield bonds outperforming investment grade bonds. International developed equity underperformed domestic equities by a thin margin, posting solid gains for the year. Emerging markets ended the year trailing domestic and developed international equities by approximately ten percent.

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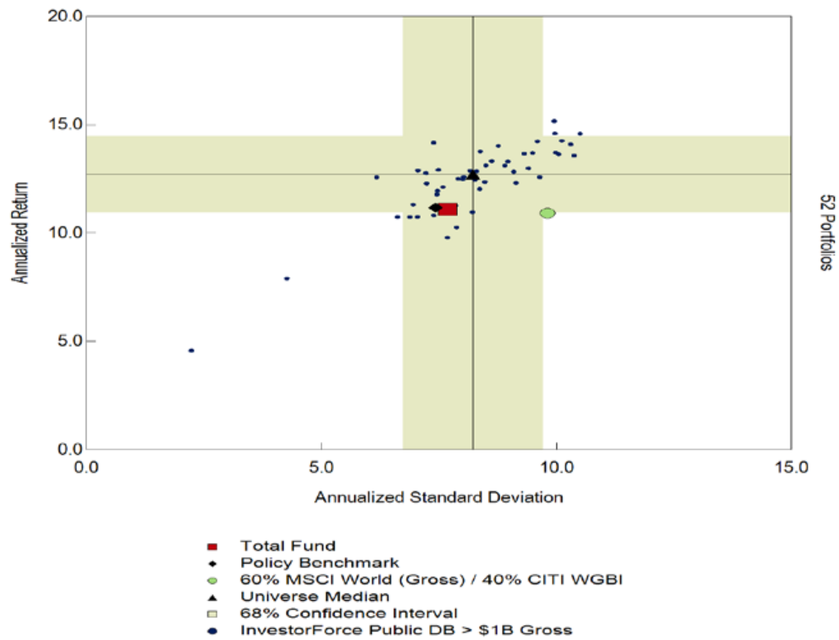
The Plan returned +13.9%, gross of fees, for the fiscal year ending June 30, 2014. By comparison, the median fund in the universe returned 16.4% for the period[1]. The Plan's allocation to public equities is significantly lower than many of its peers, which is consistent with the Board's intention to reduce the volatility of the Plan's performance. This strategy produced a risk-adjusted return that ranked near the top quartile of the peer universe over the past year. Contributing positively to performance during the fiscal year was the Plan's allocation to opportunistic credit strategies, which exhibited strong absolute performance, returning 11.5%, gross of fees, for the year. Additionally, the Plan's decision to underweight global core fixed income strategies in December 2013 in favor of global asset allocation strategies proved beneficial at the Total Fund level.

For the five-year period ending June 30, 2014, the Plan returned 11.1% gross of fees per annum, outperforming the Plan's actuarial target of 7.125%.

Investor Force Public Funds Greater than $1 Billion Universe
Risk-Return Comparison (Gross of Fees)
5 Years Ending June 30, 2014



Health Care Trust

In July 2012, the City of San Jose Police and Fire Department Health Care Trust received the first of its contributions from the City of San Jose. To date, the City of San Jose has

[1] As of June 30, 2014, the InvestorForce Public Funds Greater than $1 Billion Universe was comprised of 52 total funds with approximately $503 billion in assets. Universe rankings are based on gross of fee performance. The Plan's net of fee performance was 13.5% and 10.7% for the one- and five-year annualized periods ending June 30, 2014, respectively.

contributed $50.1 million to the Health Care Trust, with $33.4 million contributed on behalf of the Police Department and $16.7 million contributed on behalf of the Fire Department. The asset allocation of the Health Care Trust will be similar to that of the broad asset class buckets that comprise the asset allocation of the Police and Fire Department Retirement Plan. The Health Care Trust returned +14.7%, gross of fees, for the fiscal year ending June 30, 2014, which ranked in the top quartile of the InvestorForce Health and Welfare Funds universe.

NEPC provides the Plan with quarterly economic and investment market updates, performance reviews, investment manager monitoring and selection advice, and related investment services for traditional and non-traditional asset classes. In preparing our performance analysis for the Plan, we rely on the accuracy of financial data provided by the Plan's custodian bank and investment managers. Investment performance analysis and comparisons produced by NEPC have been calculated using standard performance evaluation methodologies and are consistent with industry standards. The Plan's goals are measured against stated policy objectives, appropriate benchmarks and comparative universes over multiple time periods. This review process allows the Plan to evaluate whether established goals are being achieved on an absolute, relative and risk-adjusted basis.

Sincerely,

Allan C Martin

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Statement of Investment Policy

PENSION - INCLUDES THE 401(H) INVESTMENTS

1) This Investment Policy Statement governs investments for the City of San José Police and Fire Department Retirement Plan. The Plan is a defined benefit retirement program for certain employees of the City of San José in the State of California. The terms of the Plan are described in the San José Municipal Code Chapter 3.36.1961 Police and Fire Department Retirement Plan.

2) The Plan will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the Plan's members and beneficiaries.

INVESTMENT OBJECTIVES

3) The primary objective of the investment portfolio is to satisfy the Plan's obligations to pay benefits to members of the Plan and their beneficiaries.

4) The investment portfolio also seeks to achieve a risk-adjusted long-term rate of return that exceeds the return of a composite benchmark of the respective long-term target asset mix weighting of the major asset classes. Please see Appendix A for the composition of the composite benchmark.

5) The Plan will take into consideration the actuarial investment return assumption, which is developed by the Plan's Actuary, with the goal of choosing an assumed rate that the Plan can be expected to achieve with a probability greater than 50%.

6) A range of risks will be managed in connection with the Plan, with an emphasis on the following:
   a) The impact of the investment program on the funded status of the Plan and the resulting volatility of contributions.
   b) Risk of loss of Plan assets.

7) In developing the investment policies of the Plan, various factors will be considered including, but not limited to:
   a) The structure and duration of the Plan's liabilities.
   b) The liquidity needs of the Plan.
   c) Modern Portfolio Theory.
   d) The portfolio management practices followed by other institutional investors.

FIDUCIARY STANDARDS

8) The Board of Administration is subject to the following duties under law:[1]
   a) The assets of the retirement Plan are trust funds and shall be held for the exclusive purposes of providing benefits to members of the Plan and their beneficiaries and defraying reasonable expenses of administering the Plan.
   b) The Board shall discharge its duties with respect to the Plan solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan and their beneficiaries, maintaining the actuarial soundness of the Plan, and defraying reasonable expenses of administering the Plan. The Board's duty to the members and their beneficiaries shall take precedence over any other duty.
   c) The Board shall discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.

9) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Plan's assets shall utilize the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims, and shall comply with all applicable laws, rules and regulations.

FUND GOVERNANCE

10) The governance structure of the Plan is described in the City Charter and in various governance policies established by the Board of Administration, including but not limited to:
   a) Policy on the Role of the Board of Administration
   b) Policy on the Role of the Investment Committee
   c) Policy on the Role of the Director of Retirement Services
   d) Policy on the Role of the Chief Investment Officer
   e) Policy on Roles in Vendor Selection

ASSET ALLOCATION

11) The long-term asset allocation of the Plan will be determined based on the results of an asset allocation study.

[1]Per section 540 of Chapter 3.36, 1961 Police and Fire Department Retirement Plan

PENSION - INCLUDES THE 401(H) INVESTMENTS (Continued)

12) The current long-term asset allocation of the Plan (at market value) is set out below:

As of 06/05/2014

Police and Fire Department Retirement Plan

Asset Class	Min (%)	Target (%)	Max (%)
Total equity	25%	37%	50%
Total fixed income	15%	25%	35%
Total inflation-linked asset	12%	17%	25%
Total absolute return	10%	20%	30%
Cash	0%	1%	5%

13) The Board is committed to implementing and maintaining the above long-term asset allocation policy, but also recognizes that circumstances may arise where it is not possible or practical to timely implement or maintain the policy, particularly with respect to illiquid asset classes such as real estate, hedge funds, and private debt. In such circumstance, the Board will monitor the status of the long-term asset allocation and seek to comply with the policy when it is possible and prudent to do so.

14) The long-term asset allocation of the Plan will be reviewed at a minimum every five years, also based on the results of an asset allocation study. Such studies may also be performed on an interim basis, as necessary. The Board may review the current asset allocation targets at any time in light of market conditions, and make changes as it deems necessary.

15) The Board will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investment within the broad asset classes that comprise the long-term asset allocation. The Investment Structure and any changes thereto do not necessarily require that an asset allocation study be performed.

REBALANCING

16) The asset allocation of the Plan will be monitored on a monthly basis and the assets of the Plan are to be rebalanced to within the target ranges when fluctuations in market values cause the portfolio to fall outside the guideline ranges set out above. Such rebalancing shall occur as soon as practical unless the approval of the Investment Committee is obtained.

17) When rebalancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until allocation is within the guideline ranges. An asset allocation overlay service may be engaged to monitor allocation and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines.

DIVERSIFICATION

18) Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.

19) Consistent with paragraph 18 above:

   a) No single investment management firm shall be authorized to manage more than 15% of the Plan's assets without Board approval.

   b) As a general rule, Plan assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval.

LIQUIDITY MANAGEMENT

20) The projected cash flow needs of the Plan are to be reviewed at least quarterly and the custodian and investment managers of the Plan are to be informed in writing in a timely manner of the liquidity needs of the Plan. If necessary, cash flow needs will be coordinated through the Plan's rebalancing provisions contained herein.

PROXY VOTING

21) Proxies must be voted in the best interest of shareholders — in this case the Plan and its members and beneficiaries. The Plan may engage the services of one or more third parties, including but not limited to its custodian, investment managers, and consultants, to vote proxies for common stocks owned in its portfolios. Such parties must exercise their authority to vote as fiduciaries to the Plan and in accordance with applicable standards of prudence. The Board may establish proxy voting guidelines to further guide the voting of the Plan's proxies. Any third parties retained to vote the proxies of the Plan shall provide periodic reports to the Plan on their activities.

22) As of the date of this Policy, the Board has delegated its proxy voting authority on all domestic securities to a dedicated proxy voting advisor. Investment managers for international securities are responsible for voting the proxies on international securities, as are hedge fund managers.

PENSION - INCLUDES THE 401(H) INVESTMENTS (Continued)

HIRING & TERMINATING INVESTMENT MANAGERS

23) Investment managers should meet the following criteria in order to be considered to manage the assets of the Plan.
    a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.
    b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.
    c) Must disclose past or outstanding legal judgments against them; and should not have any judgments against them, that reflect negatively upon the firm or call into question the ongoing ability of the firm to serve as a fiduciary of the Plan.

24) Staff-level procedures shall be prepared detailing the additional criteria and processes to be used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Investment Committee and the Board from time to time.

25) The procedures noted in paragraph 24 above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment advisor and/or investment staff, containing investment staff's and/or the investment advisor's recommendations and summary analysis.

MONITORING INVESTMENT MANAGERS

26) The Plan's investment managers will be monitored on an ongoing basis and may be terminated by the Plan at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the Plan.

27) Quarterly performance of investment managers will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.

28) Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:
    a) Failure to adhere to the terms of the contract between the manager and the Plan.
    b) Loss of an investment professional(s) directly responsible for managing the Plan's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process.
    c) The sale of the investment management firm to another entity, or other material change in ownership.
    d) The purchase of another entity by the investment management firm.
    e) Significant account losses and/or extraordinary addition of new accounts.
    f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations.
    g) Any other event which may impair the manager's ability to perform in a satisfactory manner or puts the Plan's assets at undue risk of loss.

DERIVATIVE SECURITIES

29) Derivative securities are financial instruments that "derive" their value from an underlying commodity, index or security. Examples include futures, swaps, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:
    a) Equitizing cash during portfolio transitions until "physical" securities are in place.
    b) Managing asset allocation on a temporary basis.
    c) Hedging foreign currency risk, subject to approved limits.

30) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Board.

31) The Plan is currently authorized to use derivatives strategies to equitize cash during portfolio transitions until physical securities are in place, and to reproduce or replicate a physical holding that corresponds to a Board-approved policy benchmark. Additional derivatives strategies must similarly be authorized by this Investment Policy Statement prior to being utilized within the Plan.

PENSION - INCLUDES THE 401(H) INVESTMENTS (Continued)

32) Given the nature of many investment managers' mandates, it is recognized and understood that investment managers retained by the Plan may use derivatives that are contrary to paragraphs 30 and 31 above.

INVESTMENT RESTRICTIONS

33) Investment management agreements will be established for each investment manager retained by the Plan. Such agreements shall specify any policies, risk controls, portfolio characteristics, reporting requirements, and other requirements or restrictions that may be applicable to the manager.

INVESTMENT COSTS

34) Investment costs shall be monitored, controlled, and whenever possible, negotiated to ensure cost effectiveness.[2] The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the Plan.

35) The Board will be provided reports on investment costs of the Plan at least annually.

VALUATION OF INVESTMENTS

36) The Plan's investments shall be valued using market values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset. To the extent possible, market values shall be obtained on a daily basis, based on public prices or quotations from investment firms. For certain investments, however, valuations will be prepared or reviewed on at least an annual basis (e.g. private instruments and real estate).

37) Where a public market price is not available for an investment, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Independent, qualified appraisers may be used to provide valuations or verify the reasonableness of internal valuations.

OTHER

38) Appendix A contains long-term Policy Benchmark.

39) Appendix B contains additional policy guidelines concerning hedge funds.

40) Exceptions to this Investment Policy Statement must be approved in writing by the Board.

POLICY REVIEW & HISTORY

41) This policy will be reviewed at least annually.

[2] Monitor all costs of alternative investments, given that many alternative investments report performance net of fees.

Appendix A LONG-TERM POLICY BENCHMARK

City of San José Police and Fire Department Retirement Plan

Asset Class	Benchmark	Target (%)
EQUITY		
Global equity	MSCI ACWI IMI (Net)	29%
Private equity	Cambridge Associates Private Equity Index (Lagged 1 Quarter)	8%
FIXED INCOME		
Global core fixed income	Barclays Capital Global Aggregate ex-U.S. (Hedged)	5%
High yield fixed income	Barclays Capital High Yield Index	5%
Opportunistic credit	50% CSFB Levered Loan Index	10%
	50% BofA Merrill Lynch U.S. High Yield BB/B-2% Constrained	
Emerging markets debt	50% JP Morgan GBI-EM Global Diversified	5%
	25% JP Morgan EMBI Global Diversified	
	25% JP Morgan Corporate Broad EMBI	
INFLATION-LINKED ASSETS		
Real estate	NCREIF ODCE (Lagged 1 Quarter)	7%
Commodities	Custom Commodity Risk Parity Index	7%
Real assets	CPI + 5%	3%
ABSOLUTE RETURN		
Absolute return/hedge funds	HFRI Fund of Funds Composite	10%
Global asset allocation	60% MSCI World/40% Citi WGBI	10%
CASH		
	90 day T-Bills	1%

Appendix B

HEDGE FUNDS

Objectives

1) The hedge fund portfolio will be managed to achieve the following portfolio objectives:
   a) Policy benchmark:
   Hedge Fund Research, Inc. Fund of Funds Composite
   b) Risk:
   Target annualized volatility between 5% and 11%
   c) Beta:
   Target beta to MSCI World <= 0.25

Portfolio Characteristics

2) The portfolio will be structured:
   a) To be a broadly diversified, global portfolio with superior risk return characteristics;
   b) To include multiple hedge fund managers and strategies;
   c) To have low correlation to traditional market indices, lowering overall portfolio risk; and
   d) To reduce downside participation in severe bear markets.

Target Allocation

Strategy	Target	Range
Relative value	35%	25-40%
Event driven	20%	15-25%
Equity long/short	15%	10-20%
Macro/directional	30%	25-40%

Portfolio Constraints

3) The hedge fund portfolio will be subject to the following constraints:
   a) No aggregate investment with any single investment manager should represent more than 10% of the hedge fund portfolio
   b) No initial investment with any single investment manager should represent more than 2.5% of the total plan
   c) No investment with any single manager should exceed 10% of the manager's total assets under management
   d) No single fund should contribute more than 15% to the hedge fund portfolio risk, as measured by the Plan's hedge fund consultant.

4) Any breach of paragraph 3 above requires notification to the Investment Committee to discuss appropriate action.

Statement of Investment Policy

HEALTHCARE - 115 SUBTRUSTS

1) This investment policy statement governs investments for the City of San José Police and Fire Department Retiree Health Care Trust Fund (the "Health Care Trust"). The Health Care Trust is an Internal Revenue Code Section 115 trust that was established on June 24, 2012. The Health Care Trust is separate from the City of San José Police and Fire Department Retirement Plan (the "Plan"), and contributed assets are to be used for the sole purpose of providing healthcare benefits to Plan beneficiaries. The Health Care Trust was established to provide an alternative to the existing 401(h) account, which is included within the Plan.

2) The Fund will be managed as an ongoing concern with a long-term investment time horizon.

INVESTMENT OBJECTIVES

3) The Health Care Trust's sole and exclusive objective is to provide a funding source for the health and welfare benefits for retirees and dependents of the City of San José Police and Fire Department Retirement Plan.

4) To achieve the goal detailed above, the Health Care Trust's assets will be managed:
   a) To achieve a high level of return with a prudent level of risk;
   b) To provide sufficient liquidity to meet all cash needs;
   c) To provide sufficient diversification in an effort to avoid significant losses and preserve capital.

FIDUCIARY STANDARDS

5) The Board of Administration is subject to the following duties under law:[1]
   a) The assets of the Health Care Trust are trust funds and shall be held for the exclusive purposes of providing benefits to members of the Plan and their beneficiaries and defraying reasonable expenses of administering the Health Care Trust.
   b) The Board shall discharge their duties with respect to the Health Care Trust solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan and their beneficiaries, and defraying reasonable expenses of administering the Health Care Trust. The Board's duties to the members and their beneficiaries shall take precedence over any other duty.
   c) The Board shall discharge their duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.

6) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Health Care Trust's assets shall utilize the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims, and shall comply with all applicable laws, rules and regulations.

FUND GOVERNANCE

7) The governance structure of the Health Care Trust is described in the City Charter and in various governance policies established by the Board of Administration, including but not limited to:
   a) Policy on the Role of the Board of Administration
   b) Policy on the Role of the Investment Committee
   c) Policy on the Role of the Director of Retirement Services
   d) Policy on the Role of the Chief Investment Officer
   e) Policy on Roles in Vendor Selection

ASSET ALLOCATION

8) The long-term asset allocation of the Health Care Trust will be determined based on the results of an asset allocation study.

9) The current asset allocation policy of the Health Care Trust (at market value) is set out below:

As of 12/31/2012

San José Police and Fire Retiree Health Care Trust Fund

Broad Asset Class	Minimum (%)	Target (%)	Maximum (%)
Equity	25%	43%	50%
Fixed income	20%	35%	40%
Inflation-linked	12%	22%	25%
Cash	0%	0%	5%
Total		**100%**	

10) The Board is committed to implementing and maintaining the above asset allocation policy, but also recognizes that circumstances may arise where it is not possible or practical to timely implement or maintain

[1] Per section 540 of Chapter 3.36, 1961 Police and Fire Department Retirement Plan

the policy. In such circumstance, the Trustees will monitor the status of the asset allocation policy and seek to comply with the policy when it is possible and prudent to do so.

11) The long-term asset allocation of the Health Care Trust will be reviewed at a minimum every five years, also based on the results of an asset allocation study. Such studies may also be performed on an interim basis, as necessary. The Board may review the current asset allocation targets at any time in light of market conditions, and make changes as it deems necessary.

12) The Board will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investment within the broad asset classes that comprise the asset allocation policy. The Investment Structure and any changes thereto do not necessarily require that an asset allocation study be performed.

REBALANCING

13) The asset allocation of the Health Care Trust will be monitored on a monthly basis and the assets of the Health Care Trust are to be rebalanced to within the target ranges when fluctuations in market values cause the portfolio to fall outside the guideline ranges set out above. Such rebalancing shall occur as soon as practical unless the approval of the Investment Committee is obtained.

14) When rebalancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until the allocation is within the guideline ranges.

DIVERSIFICATION

15) Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.

16) Consistent with paragraph 15 above:

   a) No single investment management firm shall be authorized to manage more than 15% of the Health Care Trust's actively managed assets without Board approval. There is no limit on the amount of passively managed assets that an investment management firm shall be authorized to managed.

   b) As a general rule, Health Care Trust assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval.

LIQUIDITY MANAGEMENT

17) The projected cash flow needs of the Health Care Trust are to be reviewed at least quarterly and the custodian and investment managers of the Health Care Trust are to be informed in writing in a timely manner of the liquidity needs of the Health Care Trust Fund. If necessary, cash flow needs will be coordinated through the Health Care Trust's rebalancing provisions contained herein.

PROXY VOTING

18) Proxies must be voted in the best interest of shareholders — in this case the Health Care Trust and its members and beneficiaries. The Health Care Trust may engage the services of one or more third parties, including but not limited to its custodian, investment managers, and consultants, to vote proxies for common stocks owned in its portfolios. Such parties must exercise their authority to vote as fiduciaries to the Health Care Trust and in accordance with applicable standards of prudence. The Board may establish proxy voting guidelines to further guide the voting of the Health Care Trust's proxies. Any third parties retained to vote the proxies of the Health Care Trust shall provide periodic reports to the Health Care Trust on their activities.

19) As of the date of this Policy, the Board has delegated its proxy voting authority on all domestic securities to a dedicated proxy voting advisor. Investment managers for international securities are responsible for voting the proxies on international securities, as are hedge fund managers.

HIRING & TERMINATING INVESTMENT MANAGERS

20) Investment managers should meet the following criteria in order to be considered to manage the assets of the Fund.

   a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.

   b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.

HEALTHCARE - 115 SUBTRUSTS (Continued)

c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the Health Care Trust.

21) Staff-level procedures shall be prepared detailing the additional criteria and processes to be used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Investment Committee and the Board from time to time.

22) The procedures noted in paragraph 21 above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment advisor and/or investment staff, containing investment staff's and/or the investment advisor's recommendations and summary analysis.

MONITORING INVESTMENT MANAGERS

23) The Health Care Trust's investment managers will be monitored on an ongoing basis and may be terminated by the Health Care Trust at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the Health Care Trust.

24) The majority of the Health Care Trust's assets are currently passively managed, in which case the manager should be expected to produce long-term returns that are reasonably close to those of the relevant benchmark. For any active investment managers, quarterly performance will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.

25) Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:

a) Failure to adhere to the terms of a contract between the manager and the Health Care Trust.

b) Loss of an investment professional(s) directly responsible for managing the Health Care Trust's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process.

c) The sale of the investment management firm to another entity, or other change in ownership.

d) The purchase of another entity by the investment management firm.

e) Significant account losses and/or extraordinary addition of new accounts.

f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations.

g) Any other event which may impair the manager's ability to perform in a satisfactory manner or puts the Health Care Trust's assets at undue risk of loss.

DERIVATIVE SECURITIES

26) Derivative securities are financial instruments that "derive" their value from an underlying commodity, index, or security. Examples include futures, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:

a) Equitizing cash during portfolio transitions until "physical" securities are in place.

b) Managing asset allocation on a temporary basis.

c) Hedging foreign currency risk, subject to approved limits.

27) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Board. Speculative positions in derivatives, however, are not authorized under any circumstances.

28) Given the nature of many investment manager's mandates, it is recognized and understood that investment managers retained by the Health Care Trust may use derivatives that are contrary to paragraphs 26 and 27 above.

29) This policy allows for the use of derivatives within the specific portfolios being managed by the investment managers retained by the Health Care Trust. Use of derivatives at the Health Care Trust level (i.e. Total Fund) must be authorized by this Investment Policy Statement prior to being utilized within the Health Care Trust.

INVESTMENT RESTRICTIONS

30) Health Care Trust assets are currently invested primarily in mutual fund investment vehicles, given the current asset size of the Health Care Trust. The type of investment vehicles utilized by the Health

Statement of Investment Policy

HEALTHCARE - 115 SUBTRUSTS (Continued)

Care Trust will be revisited as the asset size of the portfolio increases. In instances when the Health Care Trust invests through a commingled fund or separate account, investment management agreements will be established for each investment manager retained by the Health Care Trust. Such agreements shall specify any policies, risk controls, portfolio characteristics, reporting requirements, and other requirements or restrictions that may be applicable to the manager.

INVESTMENT COSTS

31) Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness.[2] The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the Health Care Trust.

32) The Board will be provided reports on investment costs of the Health Care Trust at least annually.

VALUATION OF INVESTMENTS

33) The Health Care Trust's investments shall be valued using market values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset.

34) Where a public market price is not available for an investment, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Independent, qualified appraisers may be used to provide valuations or verify the reasonableness of internal valuations.

OTHER

35) Appendix A contains the Long-term Policy Benchmark.

36) Exceptions to this Investment Policy Statement must be approved by the Board of Administration of the Health Care Trust.

POLICY REVIEW & HISTORY

37) This policy will be reviewed at least annually.

38) This policy was most recently reviewed by the Investment Committee on June 6, 2013.

[2]Monitor all costs of alternative investments, given that many alternative investments report performance net of fees.

Appendix A LONG-TERM POLICY BENCHMARK

City of San José Police and Fire Department Retirement Plan
Retiree Health Care Trust Fund

Asset Class	Benchmark	Target (%)
Equity	MSCI ACWI IMI (Net)	43%
Fixed income	BC Aggregate	15%
Inflation-linked	MSCI U.S. REIT	10%
	Credit Suisse Custom Risk Parity Commodity Index	12%
Absolute return/GAA	HFRI Fund of Funds Composite	20%

Investment Professionals

As of June 30, 2014

Global Equity

Aberdeen Asset Management
Frontier Markets
Philadelphia, PA

Artisan Partners LP
Global Opportunities
Global Value Equity
San Francisco, CA

Northern Trust Global Investments
NT Russell 1000 Index
Russell 3000 Index
Chicago, IL

Oberweis Asset Management
International Small Cap
Lisle, IL

Russell Investments
Emerging Markets
Seattle, WA

Vanguard (Healthcare Trust)
Total World Stock Market Index
Valley Forge, PA

Vontobel
Global Emerging Markets
New York, NY

Private Equity

57 Stars Global Opportunity Fund
Washington, DC

HarbourVest Partners
Boston, MA

Northern Trust
NT Russell 3000 Index
Chicago, IL

Pantheon Ventures
San Francisco, CA

Portfolio Advisors, LLC
Darien, CT

Russell Investments
Russell 3000
Seattle, WA

Siguler Guff & Company, LP
New York, NY

TCW/Crescent Capital
Los Angeles, CA

TPG Opportunities Partners
San Francisco, CA

Warburg Pincus
New York, NY

Global Core Fixed Income

Colchester Global Investors Limited
Global Bond Fund
London, England

Franklin Templeton
Global Multisector Fund
San Mateo, CA

Vanguard (Healthcare Trust)
Total Bond Market Index
Valley Forge, PA

Private Debt, Credit, High Yield, Emerging Market

Beach Point
Multi-Strat Corp Credit
Santa Monica, CA

Blue Bay Global Funds
London, England

Capula
European Special Situations Fund
London, England

GSO Capital Partners
Direct Lending Account
New York, NY

Iguazu Investors
Hedged EMD
Boston, MA

Marathon Asset Management
European Credit Opportunities
New York, NY

Medley Capital LLC
Opportunity Fund II
San Francisco, CA

Park Square
European Special Situations Fund
London, England

Symphony
Long/ Short Credit Fund
San Francisco, CA

White Oak Global Advisors, LLC
Direct Lending Account
San Francisco, CA

Inflation Linked Assets

American Realty Advisors
Core Fund
First American Plaza and Progress Point
Glendale, CA

Blackstone Real Estate Debt Strategies Associates II L.P.
Real Estate Debt
New York, NY

Brookfield Asset Management
Real Estate Commingled Fund
New York, NY

Credit Suisse (Pension & Healthcare Trusts)
Compound Risk Parity Commodity Index
New York, NY

Orion Fund IV Partner
European RE Fund
The Netherlands

TA Realty Associates
Value-Added
Boston, MA

Tristan Capital Partners
European Special Opps Fund
London, England

Vanguard (Healthcare Trust)
REIT Index
Valley Forge, PA

Wellington Trust Company (Pension and Health Care Trust)
Diversified Inflation Hedges
Boston, MA

Investment Professionals *(Continued)*

Absolute Return

Arrowgrass Capital Partners
International Fund
New York, NY

*BlackRock
Global Ascent
San Francisco, CA

BlueCrest Capital Management
BlueTrend Fund
New York, NY

Brevan Howard Asset Management
Multi-Strategy Fund
New York, NY

Claren Road
Multi-Strat Event Driven
New York, NY

Davidson Kempner Capital Management
Institutional Partners Fund
New York, NY

DE Shaw Group
Composite International Fund
New York, NY

Grantham, Mayo, Van Otterloo & Co.
Global Asset Allocation
Boston, MA

Horizon Asset Limited
Equity Long/Short
London, England

Hudson Bay
Multi-Strat Event Driven
New York, NY

Kepos Capital
Alpha Fund
New York, NY

Marshall Wace
Equity Long/Short
Dublin, Ireland

PIMCO
Global Asset Allocation
Newport Beach, CA

Pine River Capital Management
Pine River Fund
Minnetonka, MN

Porter Orlin
Amici Fund
New York, NY

Sandler Associates
Sandler Plus Fund
New York, NY

Senator Investment Group
Global Opportunity Fund
New York, NY

Standard Life
Global Asset Allocation
Boston, MA

Consultants

Albourne America LLC – Absolute Return
San Francisco, CA

NEPC, LLC – General Consultant
Redwood City, CA

Custodian

State Street Bank & Trust Company
Boston, MA

Proxy Voting

Glass Lewis & Co. LLC
San Francisco, CA

Portfolio Overlay Services

Russell Investments
Seattle, WA

*Terminated in Fiscal Year 2014-15

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Gross and Net Performance Summary by Asset Class

PENSION - INCLUDES THE 401(H) INVESTMENTS
For Periods ended June 30, 2014

	One Year	Three Years	Five Years	Ten Years
TOTAL FUND WITH OVERLAY (gross of fees)	**13.9%**	**7.8%**	**11.1%**	**6.9%**
TOTAL FUND WITH OVERLAY (net of manager fees)	**13.5%**	**7.4%**	**10.7%**	**6.4%**
Policy Benchmark	14.6%	7.9%	11.2%	6.8%
InvestorForce Public DB > $1B Median	16.4%	9.6%	12.7%	7.2%
TOTAL EQUITY	**22.2%**	**10.6%**	**15.0%**	**NA**
MSCI ACWI (Net)	23.3%	10.4%	14.8%	7.8%
eA All Global Equity Gross Median	24.1%	12.0%	16.2%	9.3%
TOTAL PRIVATE EQUITY	**20.0%**	**12.1%**	**14.5%**	**NA**
Cambridge PE 1 Qtr Lag	18.9%	14.4%	17.4%	14.9%
Thomson One All Private Equity Lag - CA	18.9%	13.6%	11.1%	13.9%
TOTAL FIXED INCOME	**8.6%**	**8.5%**	**9.6%**	**NA**
Barclays Aggregate	4.4%	3.7%	4.9%	4.9%
eA All US Fixed Inc Gross Median	4.9%	4.4%	5.7%	5.3%
TOTAL REAL ESTATE	**13.0%**	**11.0%**	**9.1%**	**8.1%**
NCREIF Property Index	11.2%	11.3%	9.7%	8.6%
TOTAL INFLATION-LINKED ASSETS	**14.3%**	**-2.8%**	**NA**	**NA**
San José Custom Inflation-Linked Assets Benchmark	12.8%	-2.0%	NA	NA
Custom Commodity Risk Parity Index	14.3%	-1.5%	NA	NA
	3-Months	**Year to Date**	**One Year**	**Since Inception**
TOTAL HEDGE FUND	**1.6%**	**2.0%**	**4.9%**	**3.4%**
San José Custom Hedge Fund Index	1.4%	1.9%	6.6%	4.8%
HFRI FOF Composite	1.5%	2.0%	7.6%	7.6%

Basis of Calculation: *Time-Weighted Rate of Return*
Source: NEPC LLC's Investment Performance Analysis
Report dated June 30, 2014

Gross and Net Performance Summary by Asset Class

HEALTHCARE - 115 SUBSTRUSTS

For Periods ended June 30, 2014

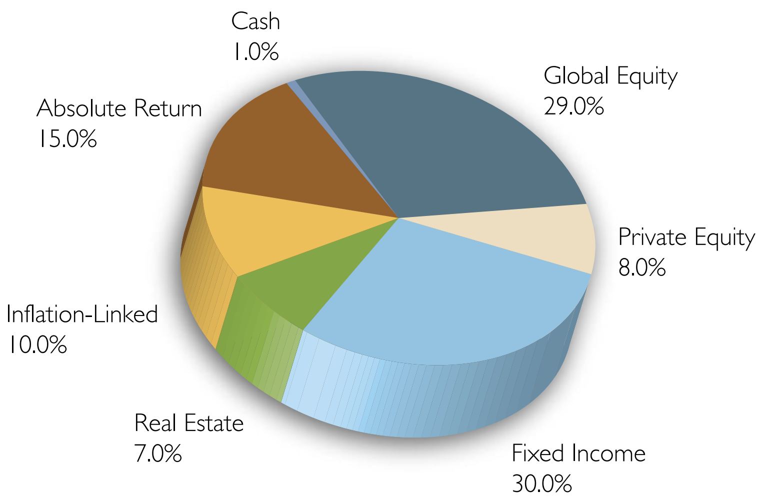
	3-Month	Calendar YTD	One Year	Since Inception
TOTAL FUND (gross of manager fees)	**4.2%**	**7.1%**	**14.7%**	**9.8%**
TOTAL FUND (net of manager fees)	**4.1%**	**7.1%**	**14.5%**	**9.6%**
Policy Benchmark	3.9%	7.0%	14.3%	9.7%
TOTAL EQUITY	**5.0%**	**6.6%**	**23.8%**	**21.1%**
MSCI ACWI IMI (net)	4.8%	6.2%	23.3%	20.4%
TOTAL FIXED INCOME	**2.0%**	**4.0%**	**4.4%**	**1.1%**
Barclays Aggregate	2.0%	3.9%	4.4%	1.2%
TOTAL INFLATION-LINKED COMPOSITE	**5.7%**	**13.6%**	**13.7%**	**3.1%**
MSCI US REIT Gross	7.0%	17.7%	13.4%	10.6%
Custom Commodity Risk Parity Index	3.9%	11.5%	14.3%	-1.0%
CPI + 5% (Unadjusted)	2.1%	4.8%	7.2%	4.8%

Basis of Calculation: Time-Weighted Rate of Return
Source: NEPC LLC's Investment Performance Analysis Report dated June 30, 2014

Pension Investment Review

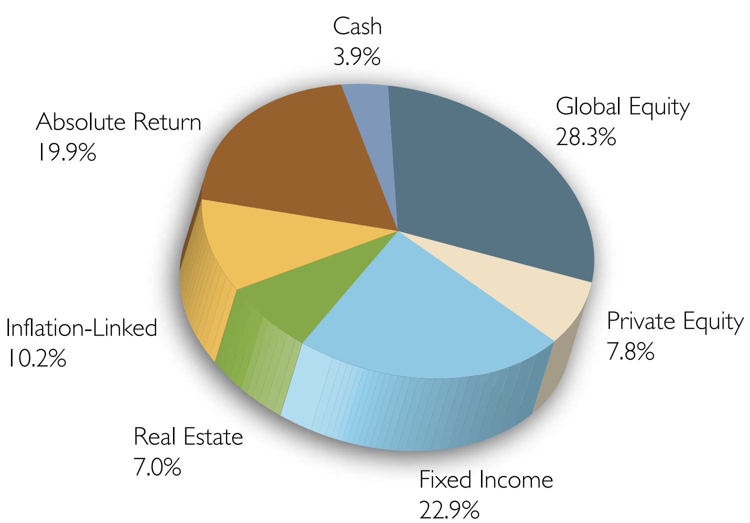
INCLUDES THE 401(H) INVESTMENTS

TARGET ASSET ALLOCATION *As of June 30, 2014*



Global Equity	29.0%
Private Equity	8.0%
Fixed Income	30.0%
Real Estate	7.0%
Inflation-Linked	10.0%
Absolute Return	15.0%
Cash	1.0%
TOTAL	100.0%

ACTUAL ASSET ALLOCATION *As of June 30, 2014*



	$ in millions	
Global Equity	$ 917.91	28.3%
Private Equity	251.89	7.8%
Fixed Income	741.63	22.9%
Real Estate	230.93	7.0%
Inflation-Linked	329.71	10.2%
Absolute Return	646.25	19.9%
Cash	126.15	3.9%
TOTAL	$ 3,244.47	100.0%

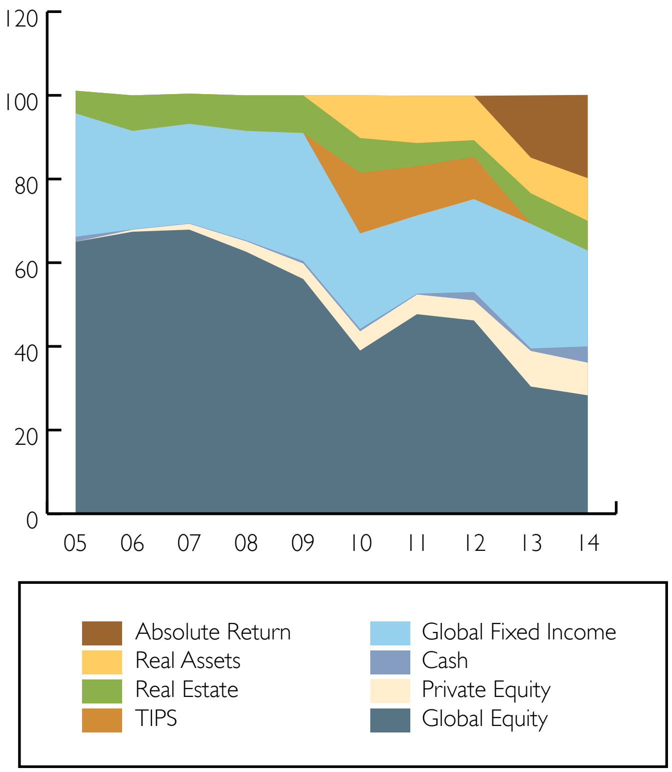
Non-GAAP basis.

Pension Investment Review *(Continued)*

INCLUDES THE 401(H) INVESTMENTS

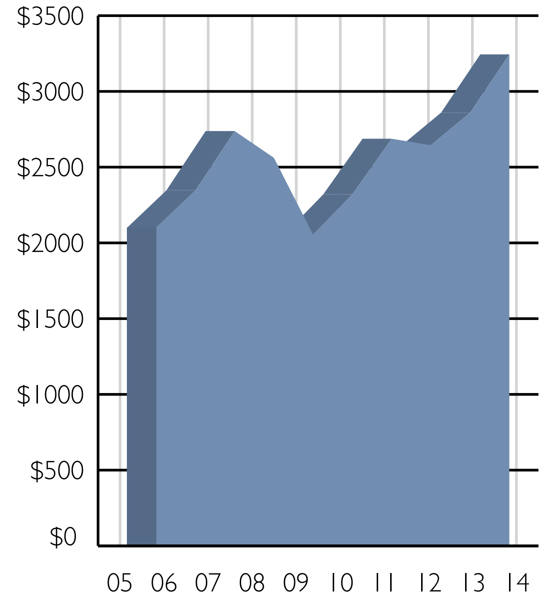
HISTORICAL ALLOCATION (Actual)

June 30, 2005 - June 30, 2014



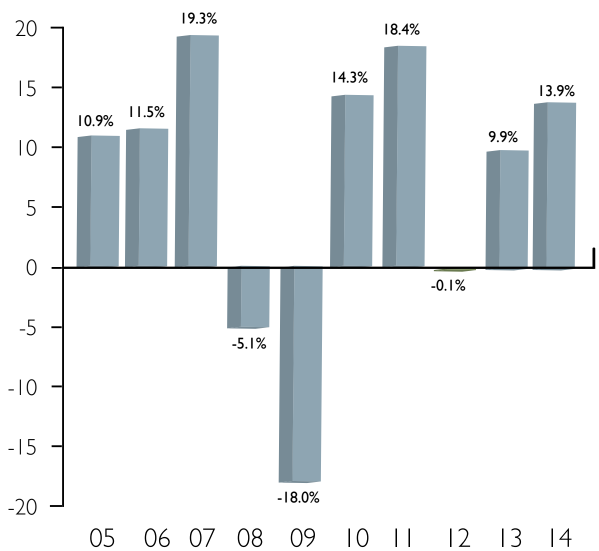
MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2014 (Dollars in Millions)



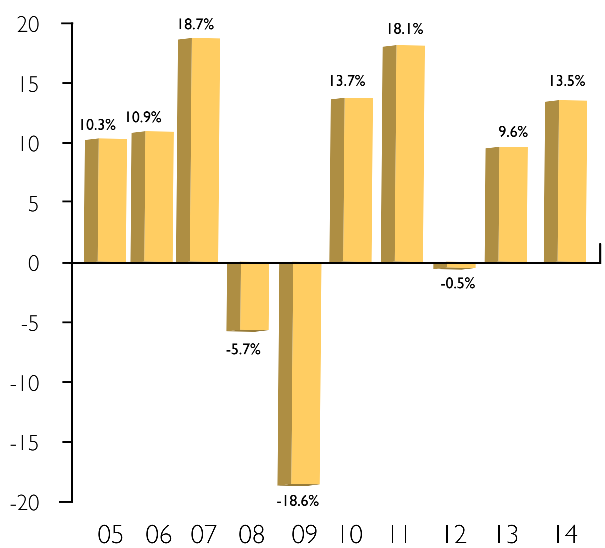
HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2005 - 2014

(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2005 - 2014

(Based on Net Market Value)

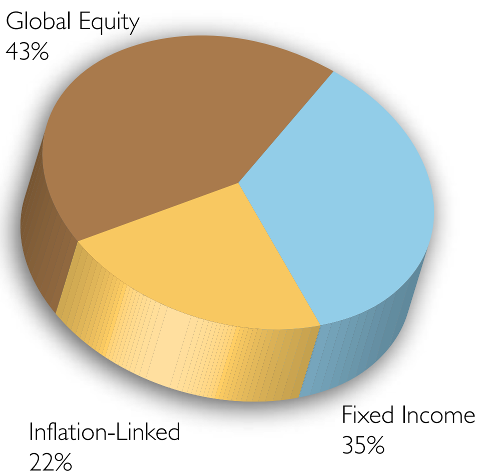


Healthcare Investment Review

115 SUBTRUSTS

TARGET ASSET ALLOCATION

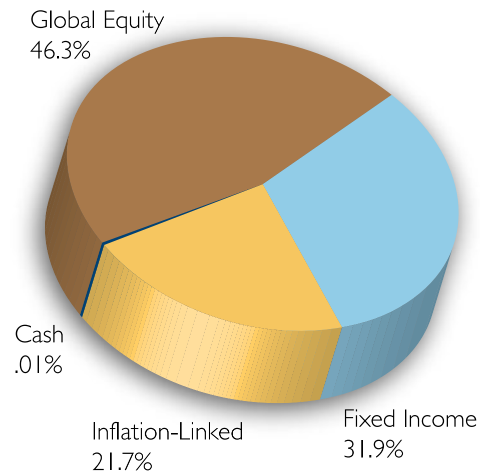
As of June 30, 2014



Global Equity	43%
Fixed Income	35%
Inflation-Linked	22%
Cash	0%
TOTAL	100.0%

ACTUAL ASSET ALLOCATION

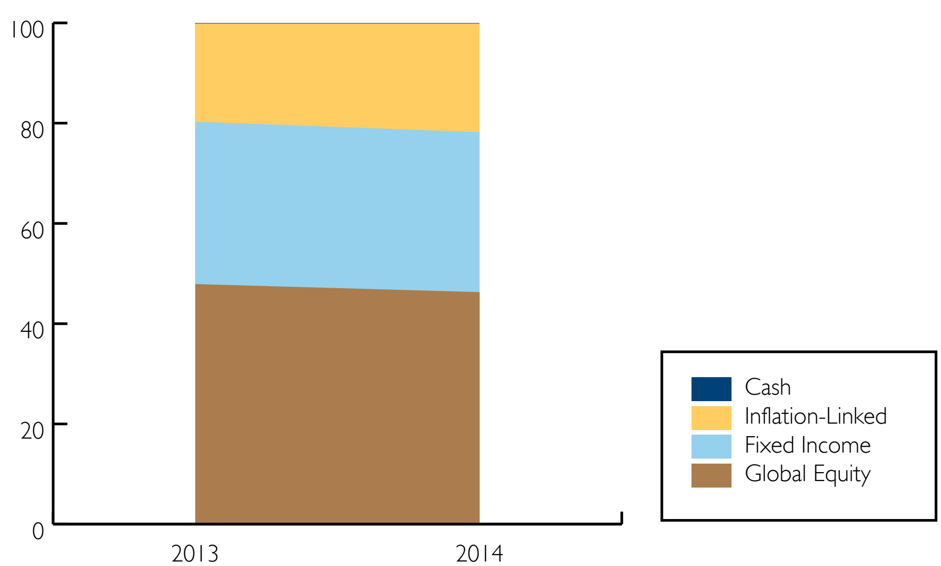
As of June 30, 2014



	$in millions	
Global Equity	$ 17.4	46.3%
Fixed Income	12.0	31.9%
Inflation-Linked	8.1	21.7%
Cash	0.0	.01%
TOTAL	**$ 37.6**	**100%**

HISTORICAL ALLOCATION (Actual)

June 30, 2013 - June 30, 2014



List of Largest Assets Held

LARGEST DISCLOSABLE STOCK HOLDINGS* (By Market Value) For Pension

June 30, 2014

Description	Country	Shares	Market Value ($US)
ORACLE CORP	United States	110,187	$ 4,465,879
BANK OF NEW YORK MELLON CORP	United States	92,540	3,468,399
MICROSOFT CORP	United States	75,226	3,136,924
ROYAL BANK OF SCOTLAND GROUP	United Kingdom	521,980	2,930,993
JOHNSON + JOHNSON	United States	27,481	2,875,062
MEDTRONIC INC	United States	41,452	2,642,980
ARCH CAPITAL GROUP LTD	Bermuda	45,977	2,640,919
NOVARTIS AG REG	Switzerland	29,141	2,638,726
TE CONNECTIVITY LTD	Switzerland	41,771	2,583,119
COMPASS GROUP PLC	United Kingdom	146,353	$ 2,544,956

A complete list of portfolio holdings is available upon request.

**The Healthcare Subtrusts are exclusively invested in commingled funds. Therefore, the Healthcare Subtrusts do not have any individual securities listed in the chart above.*

LARGEST DISCLOSABLE BOND* MANAGER ALLOCATIONS (By Market Value) For Pension

June 30, 2014

Manager Name	Fund Name	Market Value ($US)
BLUEBAY ASSET MANAGEMENT	EMERGING MARKET SELECT DEBT STRATEGY	$ 106,070,111
COLCHESTER GLOBAL INVESTORS	COLCHESTER GLOBAL BOND FUND (UNHEDGED)	89,724,169
BEACH POINT CAPITAL MANAGEMENT	TOTAL RETURN MASTER FUND	79,798,269
SYMPHONY ASSET MANAGEMENT	LONG-SHORT CREDIT FUND	77,345,325
FRANKLIN TEMPLETON	GLOBAL MULTISECTOR PLUS TRUST	67,522,231
PIMCO	DISCO II	67,151,438
WELLINGTON	IGUAZU PARTNERS	52,338,100
MEDLEY	OPPORTUNITY FUND II	47,365,085
WHITE OAK GLOBAL ADVISORS	SEPARATELY MANAGED ACCOUNT	46,865,850
CAPULA INVESTMENT MANAGEMENT	EUROPEAN SPECIAL SITUATIONS FUND	$ 37,112,510

A complete list of portfolio holdings is available upon request.

** There are no disclosable individual bond holdings as of June 30, 2014. In lieu, the largest investments with fixed income investment mangers are provided. The Healthcare Subtrusts are exclusively invested in commingled funds. Therefore, the Healthcare Subtrusts do not have any managers listed in the chart above.*

Schedule of Investment Fees

PENSION - INCLUDES THE 401(H) AND 115 SUBTRUSTS INVESTMENTS

For the Fiscal Year Ended June 30, 2014

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Absolute return	$ 646,252,222	$ 1,355,347	21
Collective short-term	126,152,053	382,737	30
Global equity	917,907,860	1,816,385	20
Global fixed income	741,627,900	2,481,862	33
Private equity	251,887,166	1,929,733	77
Real assets	329,710,838	2,773,626	84
Real estate	230,934,700	1,339,517	58
	$ 3,244,472,739	**$ 12,079,207**	**37**

**Includes cash in managers' accounts; non-GAAP Basis*

	Fees
Other Investment Service Fees	
Custodian	$ 210,151
Investment consultant	1,367,663
Investment legal fees	323,353
Proxy voting	31,242
TOTAL OTHER INVESTMENT SERVICE FEES	**$ 1,932,409**

Schedule of Commissions

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
A			
AQUA SECURITIES LP	14,448.000	$ 288.96	$ 0.0200
AUTREPAT-DIV RE	1,537,249.280	4,165.43	0.0027
B			
BANCO SANTANDER DE NEGOCIOS	169,706.430	145.24	0.0009
BARCLAYS CAPITAL	15,815,184.980	1,033.06	0.0001
BARCLAYS CAPITAL INC/LE	496,779.000	6,103.87	0.0123
BARCLAYS CAPITAL LE	3,800.000	8.00	0.0021
BEAR STEARNS SECURITIES CORP	162,365.100	27.35	0.0002
BLOOMBERG TRADEBOOK LLC	15,637.000	140.74	0.0090
BMO CAPITAL MARKETS	16,083.000	643.32	0.0400
BNP PARIBAS PRIME BROKERAGE INC	353,501.790	941.01	0.0027
BNP PARIBAS SECURITIES CORPORATION	4,635.000	185.40	0.0400
BNP PARIBAS SECURITIES SERVICES	131,354.570	300.47	0.0023
BOCI SECURITIES LIMITED	5,424,514.570	1,322.48	0.0002
BTIG LLC	34,458.000	689.16	0.0200
C			
CANACCORDADAMS INC	2,114.000	42.28	0.0200
CANACCORDGENUITY LIMITED	33,870.590	74.60	0.0022
CANADIAN IMPERIAL BANK OF COMMERCE	5,738,297.880	2,392.43	0.0004
CANTOR FITZGERALD + CO	4,800.000	80.00	0.0167
CARNEGIE AS	9,624,860.580	3,309.70	0.0003
CARNEGIE BANK AS	3,166,639.100	1,042.20	0.0003
CARNEGIE INVESTMENT BANK AB	1,523,728.860	761.51	0.0005
CARNEGIE SECURITIES FINLAND	381,034.380	1,198.04	0.0031
CIBC WORLD MARKETS CORP	408.000	16.32	0.0400
CITATION GROUP	162,419.000	5,660.86	0.0349
CITIBANK NA LONDON	-12,567.440	59.75	-0.0048
CITIC SECURITIES BROKERAGE (HK) LIMITED	553,710.960	132.44	0.0002
CITIGROUP GLOBAL MARKETS KOREA SECS LTD	139,597,421.000	312.65	0.0000
CITIGROUP GLOBAL MARKETS INC	31,997.000	1,279.88	0.0400
CITIGROUP GLOBAL MARKETS INC	6,321.000	316.05	0.0500
CITIGROUP GLOBAL MARKETS LIMITED	506,207.670	971.19	0.0019
COMPASS POINT RESEARCH + TRADING LLC	16,300.000	652.00	0.0400
CONVERGEX EXECUTION SOLUTIONS LLC	900.000	36.00	0.0400
COWEN AND COMPANY LLC	100.000	4.00	0.0400
CRAIG - HALLUM	3,200.000	128.00	0.0400
CREDIT LYONNAIS SECURITIES (ASIA)	6,647,760.160	4,179.92	0.0006
CREDIT SUISSE	516,306.390	1,169.97	0.0023
CREDIT SUISSE FIRST BOSTON (EUROPE)	278,644,825.000	605.04	0.0000
CREDIT SUISSE SECURITIES (EUROPE) LTD	908,111.710	315.85	0.0003
CREDIT SUISSE SECURITIES (USA) LLC	464,170,624.650	27,131.54	0.0001

Schedule of Commissions *(Continued)*

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
D			
D CARNEGIE AG	13,790,796.190	$ 4,171.36	$ 0.0003
DAIWA SECURITIES (HK) LTD	65,564,591.000	352.44	0.0000
DAIWA SECURITIES AMERICA INC	908,339,574.000	21,032.08	0.0000
DANSKE BANK AS	4,423,869.880	1,581.75	0.0004
DAVIDSON DA + COMPANY INC	1,600.000	64.00	0.0400
DBS VICKERS SECURITIES (SINGAPORE)	1,395,470.110	588.06	0.0004
DEN NORSKE BANK	30,358.760	4.02	0.0001
DEUTSCHE BANK SECURITIES INC	51,681,336.130	7,732.76	0.0001
DEUTSCHE SECURITIES ASIA LIMITED	446,260,242.000	168.32	0.0000
DNB NOR MARKETS CUSTODY DNB NORBANK ASA	26,808.190	25.76	0.0010
DONGWON SECURITIES	95,383,792.000	102.56	0.0000
DOUGHERTYCOMPANY	500.000	20.00	0.0400
DOWLING & PARTNERS	16,223.000	401.92	0.0248
DOWLING & PARTNERS SECURITIES LLC	5,848.000	292.40	0.0500
E			
ESN NORTH AMERICA INC	1,381,613.810	4,341.36	0.0031
EUROCLEAR BANK SA NV	-8,509.920	25.26	-0.0030
EVERCORE GROUP LLC	59,749.000	2,196.16	0.0368
F			
FIRST ENERGY CAPITAL	210,145.360	263.23	0.0013
FOKUS BANK ASA	3,377,856.870	1,022.45	0.0003
G			
G TRADE SERVICES LTD	247,728.950	69.86	0.0003
GOLDMAN SACHS + CO	153,092,722.250	27,343.06	0.0002
GUGGENHEIM CAPITAL MARKETS LLC	46,700.000	1,596.00	0.0342
H			
HSBC BANKPLC	2,876,546.040	731.45	0.0003
I			
ICHIYOSHI SECURITIES CO LTD	-6,715,987.000	6,564.34	-0.0010
ING BANK NV	34,814.170	60.60	0.0017
INSTINET	51,160.000	1,288.30	0.0252
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	11,192,705.740	5,333.41	0.0005
INSTINET FRANCE SA	2,525,136.330	1,816.45	0.0007
INSTINET PACIFIC LIMITED	147,624,825.230	14,058.51	0.0001
INSTINET UK LTD	5,350,097,011.270	75,868.97	0.0000
INVESTEC BANK PLC	45,785.940	70.47	0.0015
INVESTMENT TECHNOLOGY GROUP INC	3,492,634.000	54,717.28	0.0157
INVESTMENT TECHNOLOGY GROUP LTD	1,762,876.650	1,146.41	0.0007
ISI GROUP INC	39,439.000	1,443.56	0.0366
ITG CANADA	7,946,547.680	4,578.49	0.0006
ITG INC	55,530.000	963.77	0.0174

Schedule of Commissions *(Continued)*

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
I (continued)			
ITG INC	238.000	$ 7.14	$ 0.0300
ITG SECURITIES (HK) LTD	630,590,360.000	610.53	0.0000
J			
J P MORGAN SECURITIES INC	34,086.840	178.40	0.0052
JANNEY MONTGOMERY SCOTT INC	11,500.000	460.00	0.0400
JEFFERIES + COMPANY INC	40,658,946.220	15,620.54	0.0004
JMP SECURITIES	18,828.000	581.36	0.0309
JOH BERENBERG GOSSLER AND CO	2,061,929.350	5,334.55	0.0026
JONES & ASSOCIATES INC	33,801.000	59.81	0.0018
JONESTRADING INSTITUTIONAL SERVICES LLC	5,200.000	133.00	0.0256
JP MORGAN CLEARING CORP	3,231,903.570	3,428.96	0.0011
JP MORGAN CLEARING CORP	8,193,168.200	2,752.15	0.0003
JP MORGAN SECURITIES INC	111,100.000	60.00	0.0005
JP MORGAN SECURITIES PLC	5,770,692.740	16,080.55	0.0028
JP MORGAN CHASE BANK NA LONDON	-18,847.900	52.80	-0.0028
JP MORGAN SECURITIES (FAR EAST) LTD SEOUL	692,058,314.000	1,480.39	0.0000
K			
KEEFE BRUYETTE + WOODS INC	67,124.000	2,570.96	0.0383
KEEFE BRUYETTE AND WOOD LIMITED	48,707.770	88.72	0.0018
KEPLER CAPITAL MARKETS	191,415.580	500.98	0.0026
KEPLER EQUITIES PARIS	164,193.280	644.36	0.0039
KEYBANC CAPITAL MARKETS INC	4,893,293.720	472.00	0.0001
KING CL & ASSOCIATES INC	4,300.000	172.00	0.0400
KNIGHT EQUITY MARKETS LP	1,300.000	52.00	0.0400
KOREA INVESTMENT AND SECURITIES CO LTD	81,053,791.000	91.17	0.0000
L			
LEERINK SWANN AND COMPANY	11,800.000	472.00	0.0400
LEK SECURITIES CORP	2,077.000	41.54	0.0200
LIQUIDNETINC	43,487.000	859.45	0.0198
M			
MACQUARIE BANK LIMITED	8,652,134.420	7,729.41	0.0009
MACQUARIE CAPITAL (EUROPE) LTD	47,537.770	46.19	0.0010
MACQUARIE CAPITAL (USA) INC	768,100.000	7,681.00	0.0100
MACQUARIE EQUITIES LIMITED (SYDNEY)	1,850,824.040	3,129.56	0.0017
MACQUARIE SECURITIES (USA) INC	27,587.000	580.94	0.0211
MERRILL LYNCH CANADA INC	5,900,402.880	14,027.51	0.0024
MERRILL LYNCH INTERNATIONAL	10,160,650.590	18,073.49	0.0018
MERRILL LYNCH PIERCE FENNER + SMITH INC	595,592,547.100	104,468.82	0.0002
MERRILL LYNCH PIERCE FENNER AND S	4,085,218.840	6,425.55	0.0016
MERRILL LYNCH PROFESSIONAL CLEARING CORP	4,302,300.000	52.00	0.0000
MIZUHO SECURITIES USA INC	1,100.000	44.00	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
M (continued)			
MORGAN STANLEY CO INCORPORATED	388,920,763.190	$ 16,600.86	$ 0.0000
N			
NESBITT BURNS	50,248.600	49.25	0.0010
NOMURA FINANCIAL AND INVESTMENT	99,283,181.000	212.24	0.0000
NOMURA INTERNATIONAL PLC	362,479.260	375.75	0.0010
NUMIS SECURITIES INC	3,343,512.790	10,191.32	0.0030
O			
ODDO ET CIE	30,021.650	56.24	0.0019
OPPENHEIMER + CO INC	11,200.000	448.00	0.0400
P			
PAREL	3,527,196.630	9,143.46	0.0026
PERSHING LLC	1,616,475.930	6,832.66	0.0042
PICKERING ENERGY PARTNERS INC	5,866.000	234.64	0.0400
PIPER JAFFRAY	1,294,711.790	12,492.05	0.0096
PIPER JAFFRAY & CO/CONDUIT ACCOUNT	71,046.770	22.21	0.0003
PIPER JAFFRAY & HOPWOOD	8,283.000	414.15	0.0500
PIPER JAFFRAY INC MINNEAPOLIS	1,298,516.480	441.99	0.0003
PIPER JAFFREY	130,896.770	86.87	0.0007
PULSE TRADING LLC	27,000.000	810.00	0.0300
R			
RAYMOND JAMES AND ASSOCIATES	132,896.320	310.98	0.0023
RAYMOND JAMES AND ASSOCIATES INC	24,928.000	1,194.40	0.0479
RBC CAPITAL MARKETS	68,826,947.590	922.06	0.0000
RBC CAPITAL MARKETS LLC	649.000	25.96	0.0400
RBC DOMINION SECURITIES INC	1,678,334.220	3,801.93	0.0023
REDBURN PARTNERS LLP	312,238.500	715.89	0.0023
ROBERT W BAIRD CO INCORPORATE	798,470.190	1,089.66	0.0014
ROSENBLATT SECURITIES LLC	977.000	19.54	0.0200
ROYAL BANK OF CANADA EUROPE LTD	5,106.220	10.88	0.0021
S			
SANFORD C BERNSTEIN LTD	-233,559.830	982.79	-0.0042
SANFORD C BERNSTEIN CO LLC	41,990.000	1,428.26	0.0340
SCOTIA CAPITAL (USA) INC	6,816.000	340.80	0.0500
SCOTIA CAPITAL MKTS	156,003.870	422.79	0.0027
SKANDINAVISKA ENSKILDA BANKEN LONDON	42,703,596.360	19,516.28	0.0005
SMBC SECURITIES INC	9,265,473.000	95.72	0.0000
SOCIETE GENERALE LONDON BRANCH	318,868.390	743.48	0.0023
STANDARD CHARTERED BANK (HONG KONG) LIMI	589,332.300	1,405.06	0.0024
STATE STREET BANK AND TRUST CO	15,696.000	22.98	0.0015
STERNE AGEE & LEACH INC	27,100.000	738.00	0.0272
STIFEL NICOLAUS + CO INC	2,116,656.000	523.60	0.0002

Schedule of Commissions *(Continued)*

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
S (continued)			
STIFEL NICOLAUS AND COMPANY INCORPORAT	2,704.000	$ 135.20	$ 0.0500
SUNTRUST CAPITAL MARKETS INC	1,000.000	40.00	0.0400
SVENSKA HANDELSBANKEN	1,571,031.480	480.28	0.0003
T			
TD WATERHOUSE CDA	17,658.000	25.84	0.0015
TELSEY ADVISORY GROUP LLC	16,900.000	676.00	0.0400
THE BENCHMARK COMPANY LLC	2,100.000	42.00	0.0200
U			
UBS AG	48,248,886.220	30,636.31	0.0006
UBS AG LONDON	53,670.140	33.03	0.0006
UBS SECURITIES ASIA LTD	778,376.000	9.91	0.0000
UBS SECURITIES CANADA INC	16,692,013.670	6,159.67	0.0004
UBS SECURITIES LLC	182,531.000	2,353.99	0.0129
UBS WARBURG LTD	170,875.110	120.19	0.0007
W			
WEDBUSH MORGAN SECURITIES INC	78,300.000	3,132.00	0.0400
WEEDEN + CO	35,455.000	1,063.65	0.0300
WELLS FARGO SECURITIES LLC	32,838,151.180	940.56	0.0000
WILLIAM BLAIR & COMPANY LLC	104,743.000	2,422.76	0.0231
WUNDERLICH SECURITIES INC	26,800.000	1,072.00	0.0400
TOTAL	**$ 11,030,989,373.64**	**$ 667,033.50**	**$ 0.0001**

Investment Summary

PENSION - INCLUDES THE 401(H) INVESTMENTS

As of June 30, 2014

Type of Investment		Fair Value	% of Portfolio
Total Equities			
Global equity	$	696,119,649	33.40%
Private equity		99,325,692	4.77%
Real estate		121,181,080	5.81%
Total Equities	**$**	**916,626,421**	**43.98%**
Total Fixed Income			
Global fixed income	$	197,294,006	9.47%
Private debt		$125,261,109	6.01%
Total Fixed Income	**$**	**322,555,115**	**15.47%**
Total Real Assets			
Real assets		437,836,972	21.01%
Total Real Assets	**$**	**437,836,972**	**21.01%**
Total Hedge Fund			
Hedge fund	$	376,524,204	18.06%
Total Hedge Fund	**$**	**376,524,204**	**18.06%**
Collective short-term investment*	**$**	**30,841,162**	**1.48%**
TOTAL FAIR VALUE	**$**	**2,084,383,874**	**100.00%**

Note: The amounts presented above may vary from the amounts presented in the financial statements, due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

* Includes cash to support synthetic exposure.

HEALTHCARE - 115 SUBTRUSTS

As of June 30, 2014

Type of Investment		Fair Value	% of Portfolio
Total Equities			
Equities	$	45,919,156	56.56%
Total Equities	**$**	**45,919,156**	**56.56%**
Total Fixed Income			
Fixed income	$	21,281,423	26.22%
Total Fixed Income	**$**	**21,281,423**	**26.22%**
Total Real Assets			
Real asset	$	12,927,926	15.93%
Total Real Assets	**$**	**12,927,926**	**15.93%**
Collective short-term investment*	**$**	**1,048,675**	**1.29%**
TOTAL FAIR VALUE	**$**	**81,177,181**	**100.00%**

Note: The amounts presented above may vary from the amounts presented in the financial statements, due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

Investment Properties

FIRST AMERICAN OFFICE PLAZA

82,596 square-foot six-story office building located in San José, CA. Invested as sole shareholder in December 1999.

PROGRESS POINT

123,055 square-foot three-story office building located in O'Fallon, MO. Invested in a joint venture with Kennedy Capital Investors, LLC, in December 2007.

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Actuarial Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

CHEIRON Classic Values, Innovative Advice

November 21, 2014

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 600
San José, CA 95112

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the City of San José Police and Fire Department Retirement Plan (Plan) with respect to pension benefits.

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2013. Please refer to that report for additional information related to the funding of the System.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2013 actuarial valuation. All historical information prior to the June 30, 2011 actuarial valuation shown in these schedules is based on information reported by the prior actuary, The Segal Group, Inc.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Analysis of Financial Experience
- Solvency Test
- Schedule of Funding Progress
- Summary of Plan Provisions

The Board of Administration is responsible for establishing and maintaining the contribution policy for the Plan. The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2013 actuarial valuation updated to the measurement date of June 30, 2014. There were no significant events between the valuation date and the measurement date so the updated procedures only include the addition of service cost and interest cost offset by actual benefit payments.

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us

Beginning of year measurements are also based on the actuarial valuation as of June 30, 2013. Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to experience are reported this year. In future years, liability gains and losses will be reported reflecting the liability gains and losses between actuarial valuation dates as well as any significant events during the update period. Please refer to our GASB 67 report as of June 30, 2014 for additional information related to the financial reporting of the Plan. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2014, GASB 67 report.

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Notes to the Schedule of Employer Contributions

Reliance on the Information Provided by the Plan and Compliance with ASOPs and GAAP

In preparing our valuations and the schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

Future plan experience may differ significantly from the current economic and demographic assumptions. In addition, economic or demographic assumptions and plan provisions or applicable law may also change. As a result, future actuarial measurements can be significantly different from those expected under the current plan measurements.

To the best of our knowledge, this letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. The schedules provided for financial reporting purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter and the schedules named above were prepared for the Plan for the purposes described herein. This letter and the schedules named above are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,

William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary

Gene Kalwarski, FSA, FCA, EA, MAAA
Principal Consulting Actuary

Actuarial Assumptions and Methods

Actuarial Assumptions

The discount rate and wage inflation assumptions shown below were adopted by the Board of Administration with our input at the November 7, 2013 Board meeting. All other assumptions were adopted at the November 7, 2013 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2007 through June 30, 2013.

1. Investment Return Assumption

Assets are assumed to earn 7.125% net of investment expenses.

2. Salary Increase Rate

Wage inflation component is assumed to be 2.00% for FYE 2015-2016, and 3.50% thereafter.

In addition, the following merit component is added based on an individual member's years of service:

Table B-1	
Salary Merit Increases	
Years of Service	**Merit/ Longevity**
0	9.25%
1	7.55
2	6.75
3	5.75
4	5.00
5	4.25
6	3.75
7	3.25
8	2.75
9	2.25
10+	2.00

3. Family Composition

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

Table B-2	
Percentage Married	
Gender	**Percentage**
Males	85%
Females	85%

4. Rates of Termination

Sample rates of termination are shown in the following Table B-3.

Table B-3		
Rates of Termination		
Service	**Police**	**Fire**
0	9.50%	9.50%
1	8.00	7.00
2	6.50	4.50
3	5.50	2.00
4	4.50	1.30
5	3.50	1.10
6	2.50	1.00
7	2.00	0.90
8	1.50	0.80
9	1.30	0.70
10	1.00	0.60
11+	1.00	0.50

** Termination rates do not apply once a member is eligible for retirement*

75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.5% pay increases per year.

5. Rates of Disability

Sample disability rates of active participants are provided in Table B-4.

Table B-4		
Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.09%	0.09%
30	0.13	0.13
35	0.32	0.20
40	0.52	0.31
45	0.84	0.51
50	1.96	2.50
55	6.44	6.50
60	8.04	12.70
65	8.50	19.00

100% of disabilities are assumed to be duty related.

6. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Table B-5

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages

Age	Male	Female
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

It is assumed that 50% of active deaths are service related.

7. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Table B-6

Rates of Mortality for Disabled Lives at Selected Ages

Age	Mortality
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

8. Rates of Retirement

Rates of retirement are based on age and service according to the following Table B-7.

Table B-7

Rates of Retirement by Age

Age	Police			Fire
	Tier 1	Tier 2 <30 Years	Tier 2 30+ Years	
50	45.00%	30.00%	50.00%	27.50%
51 - 54	35.00	30.00	50.00	22.50
55 - 59	35.00	30.00	50.00	22.50
60 - 61	50.00	50.00	100.00	22.50
62 - 69	100.00	50.00	100.00	100.00
70 & over	100.00	100.00	100.00	100.00

These retirement rates apply only to those eligible for unreduced benefits.

9. Administrative Expenses

1.80% of valuation payroll added to normal cost. The administrative expenses are assumed to increase with wage inflation. Historically, the administrative expenses were assumed to reduce the investment return assumption by 10 basis points which resulted in a higher Normal Cost. To maintain the same historic division of member and City contributions for administrative expenses for this valuation, members were allocated a portion of the administrative expenses equal to 3/11ths of the difference in Normal Cost that a 10 basis point reduction in the investment return assumption would cause.

10. Changes Since Last Valuation

Assumptions were changed following an experience study, as adopted by the Board in December 2012. The investment return assumption was reduced from 7.25% to 7.125%, wage inflation was reduced from 3.50% to 2.00% for FYE 2014-2015, merit salary scale, retirement, termination and disability rates were changed, and the administrative expense assumption was changed from a dollar amount to 1.80% of valuation payroll.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below. All components of the contribution allocation procedure were established prior to the June 30, 2011 actuarial valuation, except as specifically noted below.

1. Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

2. Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.25% for 2012-13, 7.50% for 2011-12, 7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of the market value of assets.

3. Amortization Method

Actuarial gains, losses and plan changes are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	Active count	Annual Payroll	Monthly Average Pay	Percentage Change in Average Pay*
2013	1,707	$ 184,645,250	$ 9,014	-1.13%
2012	1,718	$ 187,958,523	$ 9,117	-0.48%
2011	1,735	$ 190,726,258	$ 9,161	-11.51%
2010	2,021	$ 251,058,473	$ 10,352	1.38%
2009	2,083	$ 255,222,552	$ 10,211	14.92%
2007	2,136	$ 227,734,449	$ 8,885	1.68%
2005	2,003	$ 210,018,219	$ 8,738	9.10%

Years prior to 2009 are increases over a two-year period, not an annual increase

Changes in Retirees and Beneficiaries

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
	Beginning of Period		Added to Rolls		Removed from Rolls		End of Period			
Period	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	% Increase in Annual Allowances*	Average Annual Allowances
2012-2013	1,942	$ 154,381,000	91	$ 10,259,000	39	$ 1,924,000	1,994	$ 162,716,000	5.40%	$ 81,603
2011-2012	1,885	$ 144,139,000	88	$ 11,583,000	31	$ 1,341,000	1,942	$ 154,381,000	7.11%	$ 79,496
2010-2011	1,810	$ 131,014,000	133	$ 5,384,000	58	$ 2,259,000	1,885	$ 144,139,000	10.02%	$ 76,466
2009-2010	1,700	$ 115,573,000	152	$ 17,238,000	42	$ 1,797,000	1,810	$ 131,014,000	13.36%	$ 72,383
2007-2009	1,477	$ 90,061,000	276	$ 27,537,000	53	$ 2,025,000	1,700	$ 115,573,000	28.33%	$ 67,984
2005-2007	1,385	$ 76,071,000	143	$ 15,913,000	51	$ 1,923,000	1,477	$ 90,061,000	18.39%	$ 60,976
2003-2005	1,271	$ 62,314,000	161	$ 15,619,000	47	$ 1,862,000	1,385	$ 76,071,000	22.08%	$ 54,925

Years prior to 2009-2010 are increases over a two-year period, not an annual increase

Actuarial Analysis of Financial Experience

ANALYSIS OF FINANCIAL EXPERIENCE

Gain (or Loss) in Actuarial Liability Resulting from Differences Between Assumed Experience and Actual Experience

	Gain (or Loss) for Year(s) Ended June 30,						
	2013	**2012**	**2011**	**2010**	**2009***	**2007***	**2005***
Investment income	$ (92,499)	$ (172,759)	$ (96,473)	$ (149,621)	$ (138,383)	$ 97,135	$ (136,013)
Combined liability experience	11,115	39,432	278,051	43,880	(113,495)	47,735	101,668
Gain (or loss) during year from financial experience	$ (81,384)	$ (133,327)	$ 181,578	$ (105,741)	$ (251,878)	$ 144,870	$ (34,345)
Non-recurring gain (or loss) items	(28,233)	(75,220)	12,360	(104,240)	(145,351)	(93,343)	(12,960)
Composite gain (or loss) during year	$ (109,618)	$ (208,548)	$ 193,938	$ (209,981)	$ (397,229)	$ 51,527	$ (47,305)

** Two-year period*

Amounts in thousands

GASB SOLVENCY TEST

	Actuarial Liabilities for:				Portion of Actuarial Liabilities Covered by Reported Assets		
Valuation Date	**Active Member Contributions**	**Retirees, Beneficiaries and Other Inactives**	**Remaining Active Members' Liabilities**	**Reported Assets***			
June 30, **	(A)	(B)	(C)		(A)	(B)	(C)
2013	$ 280,727	$ 2,452,728	$ 844,576	$ 2,771,924	100%	100%	5%
2012	$ 276,047	$ 2,310,295	$ 811,450	$ 2,703,539	100%	100%	14%
2011	$ 260,172	$ 2,174,044	$ 761,791	$ 2,685,721	100%	100%	33%
2010	$ 246,356	$ 1,907,931	$ 1,076,169	$ 2,576,705	100%	100%	39%
2009	$ 243,302	$ 1,630,914	$ 1,089,266	$ 2,569,569	100%	100%	64%
2007	$ 227,191	$ 1,240,126	$ 905,069	$ 2,365,790	100%	100%	99%

** Actuarial Value of Assets*

Amounts in thousands

*** Results prior to June 30, 2011 were calculated by the prior actuary*

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	**Actuarial Value of Assets**	**Actuarial Liability (AL)**	**Unfunded AL**	**Funded Ratio**	**Covered Payroll**	**Unfunded AL as a % of Covered Payroll**
June 30, 2013	$ 2,771,924	$ 3,578,031	$ 806,107	77.5%	$ 184,645	436.6%
June 30, 2012	$ 2,703,539	$ 3,397,792	$ 694,253	79.6%	$ 187,959	369.4%
June 30, 2011	$ 2,685,721	$ 3,196,007	$ 510,286	84.0%	$ 190,726	267.5%
June 30, 2010	$ 2,576,705	$ 3,230,456	$ 653,751	79.8%	$ 251,058	260.4%
June 30, 2009	$ 2,569,569	$ 2,963,482	$ 393,913	86.7%	$ 255,223	154.3%
June 30, 2007	$ 2,365,790	$ 2,372,386	$ 6,596	99.7%	$ 227,734	2.9%

Amounts in thousands

Note: Amounts prior to June 30, 2011 were calculated by the prior actuary

SUMMARY OF PENSION PLAN PROVISIONS - TIER 1

1. Membership Requirement

Participation in the plan is immediate upon the first day of employment with the City of San José as a police officer or fire fighter except for the following:

a. Independent contractors,

b. Person in City service principally for training or educational purposes,

c. Auxiliary or voluntary police officers or fire fighters,

d. Part-time or non-salaried employees, and

e. Employees receiving credit in any other retirement or pension system.

2. Final Compensation

The highest twelve consecutive months of compensation in covered employment. However, in determining Final Compensation, no compensation in the last 12 months of employment that exceeds 108% of compensation during the 12 months immediately preceding the last 12 month shall be considered. Compensation excludes overtime pay and expense allowances.

3. Credited Service

Years of service in covered employment plus service purchased for military leave of absence, Federated service, and unpaid leaves of absence.

4. Contributions

a. Member:

The amount needed to fund 3/11ths of normal cost calculated under the Entry Age actuarial cost method plus the amortization payment on the February 4, 1996 benefit improvement. For Police members, there is an additional amortization payment for member contributions not made for the last 6 months of 2006.

b. Employer:

The Employer contributes the remaining amounts necessary to fund the Plan in accordance with the Board's funding policy.

5. Service Retirement

Eligibility

Age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced benefits are also available at age 50 with 20 years of service.

Benefit

Police: 2.5% of Final Compensation for each year of credited service up to 20 years plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.

Fire: For members with less than 20 years of service, 2.5% of Final Compensation for each year of credited service. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final compensation.

6. Service Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit

Police: 50% of Final Compensation plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.

Fire: For members with less than 20 years of service, 50% of Final Compensation. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final Compensation.

7. Non-Service Connected Disability Retirement

Eligibility

Two years of service.

Benefit

For members with less than 20 years of service, 32% of Final Compensation plus 1% of Final Compensation for each year of service in excess of two. For members with 20 or more years of service, the benefit amount equals the amount that would be calculated under the service retirement formula.

8. Non-Service Connected Death

Less than 2 Years of Service:

Lump sum benefit equal to the greater of accumulated employee contributions with interest or $1,000.

Disabled retirees or members ineligible for service retirement:

Spouse receives 24% of Final Compensation plus 0.75% of Final Compensation for each year of service in excess of two, subject to a maximum of 37.5% of Final Compensation. If a member has eligible dependent children, an additional benefit is payable as follows:

1 Child:	25% of Final Compensation
2 Children:	37.5% of Final Compensation
3+ Children:	50% of Final Compensation

The total benefit payable to a family is limited to 75% of Final Compensation.

If a member does not have a spouse or eligible dependent children, a lump sum benefit equal to the greater of accumulated employee contributions with interest or $1,000.

Service retirees or members eligible for service retirement:

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. Eligible dependent children will receive the same benefit as defined under the non-service connected death for disabled retirees or members ineligible for service retirement. The total benefit payable to a family is limited to 75% of Final Compensation.

9. Service Connected Death

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. If a member has eligible dependent children, an additional benefit of 25% of Final Compensation is payable for each eligible dependent child. The total benefit payable to a family is limited to 75% of Final Compensation.

10. Termination Benefits

Less than 10 Years of Service:

Lump sum benefit equal to the accumulated employee contributions with interest at 2% per annum.

10 or more years of credited service:

The amount of the service retirement benefit, payable at the later of age 55 or 20 years from date of membership.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every February 1 by 3.0%.

SUMMARY OF PENSION PLAN PROVISIONS - POLICE TIER 2

1. Membership Requirement

Any person who is hired, rehired or reinstated by the City on or after August 4, 2013.

2. Final Compensation

The average annual compensation earnable during the highest three consecutive years of service. Final compensation only includes base pay, excluding premium pay and any other additional compensation.

3. Credited Service

One year of service credit is given for 2,080 or more hours of City service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 2,080) is given for each calendar year with less than 2,080 hours worked.

4. Member Contributions

50% of total Police Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability.

5. Unreduced Service Retirement

Eligibility

Age 60 with ten years of service.

Benefit - Member

2.0% of Final Compensation for each year of credited service attributable to Police Tier 2 plus the applicable Police Tier 1 multiplier for each year of credited service attributable to Police Tier 1, subject to a maximum of 65% of Final Compensation.

Benefit - Survivor

Single life annuity.

6. Early Service Retirement

Eligibility

Age 50 with ten years of service.

Benefit - Member

Reduced benefit actuarially equivalent to the unreduced service retirement benefits commencing at age 60. The early retirement reduction is applied to the benefit after the application of the maximum of 65% of final compensation.

7. Service-Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit - Member

Monthly benefit equivalent to 50% of Final Compensation.

8. Non-Service Connected Disability Retirement

Eligibility

Five years of service.

Benefit - Member

2.0% of Final Compensation for each year of credited service attributable to Police Tier 2 plus the applicable Police Tier 1 multiplier for each year of credited service attributable to Police Tier 1, subject to a minimum of 20% of Final Compensation and a maximum of 50% of Final Compensation.

9. Death Before Retirement

If death occurs before retirement eligibility is reached and after two years of service

Monthly benefit equal to the greater of:

- 10% of Final Compensation or
- 2% of Final Compensation for each year of service up to a maximum of 30% of Final Compensation

If death occurs after retirement eligibility is reached

Benefit equivalent to what the employee would have received if retired at the time of death.

Employees killed in the line of duty

Monthly benefit equal to the greater of:

- 50% of Final Compensation or
- Benefit equivalent to what the employee would have received if retired at the time of death.

10. Withdrawal Benefits

Less than ten Years of Service

Lump sum benefit equal to the accumulated employee contributions with interest.

Ten or more years of credited service

The amount of the service retirement benefit, actuarially reduced for early retirement, and payable when retirement eligibility is reached.

11. Benefit Forms

Annuity benefits are paid in the form of a life annuity or an actuarially equivalent annuity with 50%, 75% or 100% continuance to a survivor.

12. Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by the change in the December CPI-U for San José-San Francisco-Oakland, subject to a cap of 1.5%. The first COLA after retirement shall be prorated based on the number of months retired.

CHEIRON Classic Values, Innovative Advice

November 21, 2014

Board of Administration
City of San José Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 600
San José, CA 95112

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the City of San José Police and Fire Department Retirement Plan with respect to Other Postemployment Benefits (OPEB) provided through the City of San José Police and Fire Department Postemployment Healthcare Plan ("Plan").

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2013. Please refer to that report for additional information related to the funding of the Plan.

Funding Objectives and Progress

The funding methods adopted in collective bargaining and reflected in the valuation are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets in the Plan compared to the amount targeted by the funding method as of the valuation date. Because the effort to pre-fund the Plan was started relatively recently, the current funded status is relatively low. For the Police Department, a five-year transition to contributions aimed at pre-funding the explicit subsidies of the Plan began with the 2009-10 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2008. For the Fire Department, this transition began with the 2011-12 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2010. During the phase-in period, annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. Furthermore, if the City or member rates exceed 11% and 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages. For the 2014-15 fiscal year, the calculated Police Department contribution rates exceeded these limits, so the actual contribution rate was limited to 11% for the City and 10% for Members.

A summary of the key results from the June 30, 2013 actuarial valuation are as follows:

- *Assets:* The market value of assets increased approximately $12 million to $75 million since the prior valuation due to $29 million in contributions plus $7 million in investment earnings less $24 million in benefit payments. The actuarial value of assets that smooths investment gains and losses over a five-year period increased approximately $9 million to $75 million.

- *Actuarial Liability:* On a funding basis, the actuarial liability for the explicit subsidy decreased approximately $84 million from $596 million to $512 million. The decrease was primarily due to claims experience, trend assumption changes and plan changes. On a financial reporting basis, the actuarial liability, including the implicit subsidy, decreased approximately $296 million from $997 million to $701 million due to claims experience, trend assumption changes, plan changes and an increase in the discount rate.

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Other Postemployment Benefits (OPEB)

- *Unfunded Actuarial Liability (UAL)/Surplus:* On a funding basis, the UAL decreased approximately $93 million from $530 million to $437 million. On a financial reporting basis, the UAL decreased $306 million from $931 million to $625 million.

- *Funding Ratio:* On a funding basis, the ratio of actuarial value of assets to the Actuarial Liability increased from 11% to 15% since the last valuation. On a financial reporting basis, the ratio of actuarial value of assets to the Actuarial Liability increased from 7% to 11% since the last valuation.

- *Member Contribution Rate:* The City negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five-year transition to full actuarially determined contributions to fund the explicit subsidy with caps on annual increases and the ultimate cost. The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of three to one with the City contribution set at 3/4 of the total contribution. For the Police Department, the member contribution rate increased from 9.51% to 10.00% of payroll. For the Fire Department, the member contribution rate increased from 7.36% to 8.49%.

- *City Contribution Rate:* The City contribution rate for the Police Department increased from 10.31% to 11.00% of payroll for the fiscal year ending June 30, 2015. The City contribution rate for the Fire Department increased from 7.97% to 9.27% of payroll for the fiscal year ending June 30, 2015.

More details on the plan experience for the past year, including the changes listed above and their impact on the June 30, 2013 valuation results can be found in our full report.

Schedules Prepared by Actuary

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2013 actuarial valuation:

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Solvency Test
- Analysis of Financial Experience
- Summary of Key Substantive Plan Provisions

In addition, we have prepared the following information for inclusion in the Financial Section of this CAFR.

- Notes to Required Supplementary Information
- Schedule of Funding Progress
- Schedule of Employer Contributions

All historical information prior to the June 30, 2011 actuarial valuation shown in these exhibits is based on information reported by the prior actuary, The Segal Group, Inc.

Reliance on the Information Provided by the System and Compliance with GAAP

In preparing our valuations and the schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

Future plan experience may differ significantly from the current economic and demographic assumptions. In addition, economic or demographic assumptions and plan provisions or applicable law may change. As a result, future actuarial measurements can be significantly different from those expected under the current plan measurements.

Actuary's Certification Letter *(Continued)*

Other Postemployment Benefits (OPEB)

To the best of our knowledge, this letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter and the schedules named above were prepared for the Plan for the purposes described herein. This letter and the schedules named above are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party. This letter and the exhibits named above do not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.

Sincerely,
Cheiron

William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachments

Actuarial Asumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Economic Assumptions

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the December 5, 2013 Board meeting.

1.Expected Return on Plan Assets: 7.125% per year

2.Expected Return on Employer Assets: 3.50% per year

3.Blended Discount Rate: 6.00% per year

4.Per Person Cost Trends:

Date	Annual Increase			
To Calendar Year	Pre-Medicare	Medicare Eligible	Dental	Part B Premiums
2014	8.50%	6.50%	4.00%	0.00%
2015	8.20	6.34	4.00	5.53
2016	7.89	6.18	4.00	4.25
2017	7.59	6.02	4.00	4.77
2018	7.29	5.86	4.00	5.38
2019	6.98	5.70	4.00	5.49
2020	6.68	5.54	4.00	5.51
2021	6.38	5.38	4.00	5.78
2022	6.07	5.21	4.00	7.00
2023	5.77	5.05	4.00	6.81
2024	5.46	4.89	4.00	6.69
2025	5.16	4.73	4.00	6.58
2026	4.86	4.57	4.00	6.47
2027	4.55	4.41	4.00	6.36
2028	4.25	4.25	4.00	6.25
2029	4.25	4.25	4.00	6.13
2030	4.25	4.25	4.00	6.02
2031	4.25	4.25	4.00	5.91
2032	4.25	4.25	4.00	5.80
2033	4.25	4.25	4.00	5.68
2034	4.25	4.25	4.00	5.57
2035	4.25	4.25	4.00	5.46
2036	4.25	4.25	4.00	5.35
2037+	4.25	4.25	4.00	4.10

Actual premium increases for 2014 were reflected in the valuation, with the above rates applying for future years. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

Demographic Assumptions

The wage inflation, participation assumptions and plan election assumptions were adopted by the Board of Administration at the November 7, 2013 and December 5, 2013 Board meetings based upon our recommendations and input. The other demographic assumptions shown below were adopted by the Board of Administration at the November 7, 2013 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2007 through June 30, 2013.

1. Retirement Rates:

The following rates of retirement are assumed for members eligible to retire.

Table B-7

Rates of Retirement by Age

Age	Police			Fire
	Tier 1	Tier 2 <30 Years	Tier 2 30+ Years	
50	45.00%	30.00%	50.00%	27.50%
51 - 54	35.00	30.00	50.00	22.50
55 - 59	35.00	30.00	50.00	22.50
60 - 61	50.00	50.00	100.00	22.50
62 - 69	100.00	50.00	100.00	100.00
70 & over	100.00	100.00	100.00	100.00

These retirement rates apply only to those eligible for unreduced benefits.

Terminated vested members are assumed to retire at age 55.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Demographic Assumptions *(Continued)*

2. Termination Rates

Sample rates of termination are shown in the following table.

Table B-3		
Rates of Termination		
Service	**Police**	**Fire**
0	9.50%	9.50%
1	8.00	7.00
2	6.50	4.50
3	5.50	2.00
4	4.50	1.30
5	3.50	1.10
6	2.50	1.00
7	2.00	0.90
8	1.50	0.80
9	1.30	0.70
10	1.00	0.60
11+	1.00	0.50

** Termination rates do not apply once a member is eligible for retirement*

3. Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	**Male**	**Female**
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

Disabled Lives:

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years..

Rates of Mortality for Disabled Lives at Selected Ages	
Age	**Mortality**
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

4. Disability Rates:

Sample rates of disability are shown in the following table.

Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.09%	0.09%
30	0.13	0.13
35	0.32	0.20
40	0.52	0.31
45	0.84	0.51
50	1.96	2.50
55	6.44	6.50
60	8.04	12.70
65	8.50	19.00

100% of disabilities are assumed to be duty related.

5. Salary Increase Rate:

Wage inflation component is assumed to be 3.50% annually beginning in fiscal year ending June 30, 2016 (2% for the fiscal years ending June 30, 2014 and 2015). In addition, the following merit component is added based on an individual member's years of service.

Salary Merit Increases	
Years of Service	**Merit/ Longevity**
0	9.25%
1	7.55
2	6.75
3	5.75
4	5.00
5	4.25
6	3.75
7	3.25
8	2.75
9	2.25
10+	2.00

6. Percent of Retirees Electing Coverage:

100% of future retirees are assumed to elect coverage at retirement. Retirees are assumed to continue coverage in their 2013 plan. Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportions shown below.

Assumed Plan Elections for Future Retirees	
Plan	**% Electing**
Pre-Medicare Medical Plans	
• Kaiser DHMO	5%
• Kaiser $25 co-pay	45%
• HMO $45 co-pay	5%
• HMO $25 co-pay	20%
• PPO / POS $30 co-pay	5%
• PPO / POS $25 co-pay	20%
Medical-Eligible Medical Plans	
• Kaiser senior advantage	40%
• BS medicare HMO	7%
• BS medicare PPO / POS	50%
• UHC medicare advantage	2%
• UHC senior supplement	1%
Dental (All Retirees)	
• Delta dental PPO	97%
• DeltaCare HMO	3%

7. Family Composition:

95% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement.

8. Dependent Age:

For current retirees, actual spouse's date of birth was used when available. For future retirees, husbands are assumed to be three years older than their wives.

9. Married Percentage:

Percentage Married	
Gender	**Percentage**
Males	85%
Females	85%

10. Administrative Expenses:

Included in the average monthly premiums.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Changes Since Last Valuation

The expected return on plan assets were reduced from 7.25% to 7.125%. The blended discount rate was increased from 4.40% to 6.10%. Plan election rates were also updated based on recent plan enrollment data and updated plan options.

Trend assumptions were revised slightly, including a reduction in the ultimate rate of medical cost growth from 4.50% to 4.25%.

Wage inflation for FYE 2014-2015, merit salary scale, retirement, termination and disability rates were changed following the experience study adopted by the City of San José Police and Fire Department Retirement Plan Board.

Claim and Expense Assumptions:

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 5, 2013 Board meeting based upon our recommendations.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2013, adjusted to reflect the actual premium increases for 2014. For non-Medicare adults, the premiums for single and family coverage were blended based on enrollment data for the 2013 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. The resulting per person per month (PPPM) cost was then adjusted using age curves. The impact of children was assumed to be de minimis. All claims costs are developed jointly for the Federated and Police and Fire Postemployment Healthcare Plans of the City of San José; the combined population participates in the same health insurance plans and pays the same premiums.

This report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 related legislation and regulations.

1. Average Annual Claims and Expense Assumptions:

The following claims and expense assumptions were developed as of July 1, 2013 based on the premiums in effect on that date. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the pre-Medicare cost trend rates.

The following tables show the claims costs for each medical plan as of the valuation date:

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE

	Kaiser DHMO		Kaiser $25 Co-Pay		HMO $45 Co-Pay	
Age	Male	Female	Male	Female	Male	Female
40	2,526	4,490	3,256	5,787	2,972	5,282
45	3,163	4,754	4,077	6,127	3,721	5,592
50	4,190	5,638	5,400	7,266	4,929	6,632
55	5,506	6,719	7,096	8,659	6,477	7,904
60	7,156	8,021	9,223	10,337	8,418	9,435
64	9,244	9,910	11,913	12,772	10,874	11,658

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE

	HMO $25 Co-Pay		PPO / POS $30 Co-Pay		PPO / POS $25 Co-Pay	
Age	Male	Female	Male	Female	Male	Female
40	3,626	6,446	3,395	6,035	3,777	6,714
45	4,541	6,824	4,252	6,389	4,730	7,108
50	6,014	8,093	5,631	7,577	6,265	8,430
55	7,903	9,644	7,400	9,030	8,233	10,047
60	10,272	11,513	9,618	10,780	10,700	11,993
64	13,268	14,225	12,423	13,319	13,822	14,818

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Claim and Expense Assumptions *(Continued)*

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
	Kaiser Senior Adv		BS Med HMO		BS Med PPO / POS	
Age	Male	Female	Male	Female	Male	Female
65	2,697	2,877	5,445	5,807	6,007	6,407
70	3,167	3,177	6,393	6,412	7,053	7,075
75	3,541	3,425	7,149	6,914	7,887	7,628
80	3,763	3,536	7,595	7,137	8,380	7,874
85	3,813	3,499	7,697	7,063	8,492	7,792

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE				
	UHC Med Adv		UHC Senior Supp	
Age	Male	Female	Male	Female
65	4,378	4,669	5,007	5,340
70	5,141	5,156	5,879	5,897
75	5,748	5,560	6,574	6,358
80	6,108	5,739	6,985	6,563
85	6,189	5,679	7,078	6,495

SAMPLE CLAIMS COSTS - DENTAL				
	Delta Dental PPO		DeltaCare HMO	
Age	Male	Female	Male	Female
All	616	616	319	319

2. Medicare Part D Subsidy:

Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.

3. Medicare Part B:

All Medicare eligible retirees are assumed to participate in Medicare Part B.

4. Medicare Eligibility:

All retirees who turn age 65 are assumed to be eligible for Medicare.

5. Annual Limits:

Assumed to increase at the same rate as trend.

6. Lifetime Maximums:

Are not assumed to have any financial impact.

7. Geography:

Implicitly assumed to remain the same as current retirees.

8. Retiree Contributions:

Retirees pay the difference between the actual premium for the elected plan and the lowest cost plan available to active members, if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

Changes Since Last Valuation:

The claims costs process was modified slightly to reflect actual rates for the year following the valuation date.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

1. Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the Plan. The actuarial liability for the Plan represents the target amount of assets the Plan should have as of the valuation date according to the actuarial cost method.

2. Asset Valuation Method

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE

Contribution Allocation Procedure *(Continued)*

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. For Police, the unfunded actuarial liability is amortized as a level percent of payroll over a closed 30-year period commencing June 30, 2008. For Fire, the unfunded actuarial liability is amortized as a level percent of payroll over a closed 30-year period commencing June 30, 2010.

4. Contributions

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. We understand the agreements call for a five-year transition from the prior 10-year cash flow funding policy to the current policy of actuarially funding the explicit subsidy. For the Police Department, this transition began with the 2009-10 fiscal year. The transition has been completed so Police contribution rates are based entirely on contributing the full Annual Required Contribution (ARC), excluding the implicit subsidy and subject to the annual rate increases described below. For the Fire Department, this transition began with the 2011-12 fiscal year.

In addition, we understand that annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll, respectively. We have interpreted the bargaining agreement to apply these restrictions beyond the transition period, so they have been applied to the Police contribution rates as well as the Fire contribution rates.

Furthermore, the bargaining agreement states that if the City or member rates exceed 11% or 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages.

Changes since Last Valuation:

None.

POSTEMPLOYMENT HEALTHCARE - DATA SCHEDULES

SCHEDULE OF ACTIVE MEMBER DATA						
Valuation Date *as of June 30,*	Active Member Counts			Annual Payroll	Average Annual Pay	Percentage Change in Average Pay*
	Under Age 65	Age 65+	Total			
2013	1,707	0	1,707	$ 184,645,250	$ 108,169	7.7%
2012	1,718	0	1,718	187,958,524	100,481	-8.6%
2011	1,735	0	1,735	190,726,258	109,929	-11.5%
2010	2,020	1	2,021	251,058,473	124,225	1.4%
2009	N/A	N/A	2,083	255,222,552	122,526	14.9%
2007	N/A	N/A	2,136	227,734,449	106,617	NA%

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase in Annual Subsidy	Average Annual Subsidy
	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy		
Medical										
2012-13	1,789	$ 21,488,930	94	51	1,832	$ 19,538,587	43	$ (1,950,343)	-9.1%	$ 10,665
2011-12	1,736	21,104,972	107	54	1,789	21,488,930	53	383,958	1.8%	12,012
2010-11	1,676	19,632,008	119	59	1,736	21,104,972	60	1,472,964	7.5%	12,157
2009-10	1,555	16,584,591	N/A	N/A	1,676	19,632,008	121	3,047,417	18.4%	11,714
2007-09	1,362	13,277,469	N/A	N/A	1,555	16,584,591	193	3,307,122	24.9%	10,665
Dental										
2012-13	1,855	$ 2,398,735	71	33	1,890	$ 2,301,504	35	$ (97,231)	-4.1%	$ 1,218
2011-12	1,798	2,325,033	70	18	1,855	2,398,735	57	73,702	3.2%	1,293
2010-11	1,707	2,267,352	104	24	1,798	2,325,033	91	57,681	2.5%	1,293
2009-10	1,519	1,794,454	N/A	N/A	1,707	2,267,352	188	472,898	26.4%	1,328
2007-09	1,375	1,629,777	N/A	N/A	1,519	1,794,454	144	164,677	10.1%	1,181

* *Annual subsidies are explicit amounts*

Actuarial Assumptions and Methods *(Continued)*

POSTEMPLOYMENT HEALTHCARE - FINANCIAL SCHEDULES

SOLVENCY TEST

Valuation Date	Actuarial Liabilities: Retirees, Beneficiaries and Other Inactives	Actuarial Liabilities: Remaining Active Members	Reported Assets	Portion of Actuarial Liabilities Covered by Reported Assets	
June 30,	(A)	(B)		(A)	(B)
2013	$ 421,999	$ 278,526	$ 75,035	18%	0%
2012	600,869	396,452	66,385	11%	0%
2011	622,691	381,104	60,709	10%	0%
2010	568,611	377,697	58,586	10%	0%
2009	436,249	325,355	55,618	13%	0%
2007	336,899	329,328	45,393	13%	0%
2006	422,457	428,761	38,381	9%	0%

** Amounts for June 30, 2009 and earlier were calculated by the prior actuary*

Amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE

Type of Activity	Gain (or Loss) for Year Ending June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Investment income	$ 2,437	$ (6,011)	$ (2,661)	$ (3,067)
Liability experience	(4,536)	4,760	5,967	(11,242)
Gain (or loss) during year from financial experience	$ (2,099)	$ (1,251)	$ 3,305	$ (14,309)
Non-recurring gain (or loss) items	258,939	58,173	1,146	(122,599)
Composite Gain (or Loss) During Year	**$ 256,840**	**$ 56,922**	**$ 4,452**	**$ (136,908)**

Amounts in thousands

Summary of Key Substantive Plan Provisions

POSTEMPLOYMENT HEALTHCARE

Eligibility

Employees who retire (include deferred vested members) at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of final compensation are eligible to elect medical coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 26.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage if the following conditions are met:

1. The employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and,
2. Both the member and the survivors were enrolled in the active medical plan immediately before death; and,
3. The survivor will receive a monthly pension benefit.

Employees who separate from service after July 5, 1992, with 20 years of service, leaving contributions in the retirement plan, are eligible to elect medical and/or dental coverage upon retirement.

Benefits for Retirees:

Medical:

The Retirement System, through the medical benefit account, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference, if another plan is elected.

To the extent that the elected plan premium is less than the maximum subsidy amount, Medicare-eligible retirees receive reimbursement of Medicare Part B premiums for themselves and their covered spouse, if applicable.

Dental:

The Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

Premiums:

Monthly premiums before adjustments for 2013 and 2014 are as follows.

2013 MONTHLY PREMIUMS		
Plan	**Single**	**Emp/Sp**
Non-Medicare Monthly Rates		
Kaiser DHMO	$ 457.70	$ 1,139.70
Kaiser $25 co-pay	583.80	1,453.70
BS HMO $45 co-pay	520.12	1,336.08
BS HMO $25 co-pay	623.56	1,601.82
BS PPO / POS $30 co-pay	587.86	1,510.74
BS PPO / POS $25 co-pay	755.20	1,940.82
Medicare-Eligible Monthly Rates		
Kaiser senior advantage	$ 256.01	$ 512.02
BS medicare HMO	503.42	1,006.86
BS medicare PPO / POS	617.62	1,235.28
UHC medicare advantage	485.95	971.90
UHC senior supplement	501.78	1,003.56
Dental		
Delta dental PPO	$ 102.18	$ 102.18
DeltaCare HMO	46.84	46.84

2014 MONTHLY PREMIUMS		
Plan	**Single**	**Emp/Sp**
Non-Medicare Monthly Rates		
Kaiser DHMO	$ 471.12	$ 942.24
Kaiser $25 co-pay	575.34	1,150.68
BS HMO $45 co-pay	561.00	1,122.00
BS HMO $25 co-pay	630.50	1,261.00
BS PPO / POS $30 co-pay	625.10	1,250.20
BS PPO / POS $25 co-pay	764.60	1,529.20
Medicare-Eligible Monthly Rates		
Kaiser senior advantage	$ 278.50	$ 557.00
BS medicare HMO	530.86	1,061.74
BS medicare PPO / POS	616.00	1,232.00
UHC medicare advantage	485.95	971.90
UHC senior supplement	501.78	1,003.56
Dental		
Delta dental PPO	$ 48.92	$ 107.62
DeltaCare HMO	27.16	54.30

Summary of Key Substantive Plan Provisions *(Continued)*

POSTEMPLOYMENT HEALTHCARE

SUMMARY OF 2014 BENEFIT PLANS						
Non-Medicare Plans:	**Kaiser $25 Co-Pay**	**Kaiser DHMO**	**BS HMO $25 Co-Pay**	**BS HMO $45 Co-Pay**	**BS PPO $25 Co-Pay**	**BS PPO $30 Co-Pay**
Annual out-of-pocket maximum	$1,500/$3,000	$4,000/$8,000	$1,000/$2,000	$3,500/$7,000	$2,000/$4,000	$7,000/$14,000
Annual deductible	None	$1,500/$3,000	None	Rx only*	$100/$200	$3,500/$7,000
Office visit	$25	$40	$25	$45	$25	$30
Emergency room	$100	30% coinsurance	$100	$200	$100	$100 + 20%
Hospital care	$100	30% coinsurance	$100	50% coinsurance	Tier 1 – $100 + 10% Tier 2 – 30%	Tier 1 – $250 + 20% Tier 2 – 40%
Prescription Drug (30-day supply):						
Generic	$10	$10	$10	$15	$10	$15
Brand	$25	$30	$25	$30*	$25	$30*
Non-formulary	N/A	N/A	$40	50%* *$250 deductible	$40	50%* *$250 deductible

Medicare-Eligible Plans:	**Kaiser**	**BS HMO**	**BS PPO**	**UHC Medicare Advantage**	**UHC Senior Supplement**
Annual out-of-pocket maximum	$1,500/$3,000	$1,000/$2,000	$2,000/$4,000	$6,700	None
Annual deductible	None	None	$100/$200	None	$250 outside US only
Office visit	$25	$25	$25	$25	No charge
Emergency room	$50	$100	$100	$50	No charge
Hospital care	$250	$100	$100 + 10% coinsurance	No charge	No charge
Prescription Drug (30-day supply):					
Generic	$10	$10	$10	$15	$5
Brand	$10	$25	$25	$20	$10
Non-formulary	N/A	$40	$40	$20	Not covered

Cost Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San José will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

Active Plan Funding:

Member Contribution: Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation. However, the annual increase in contribution rate is limited to 1.25% of payroll.

City's Contribution: Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation. However, the annual increase in contribution rate is limited to 1.25% of payroll.

Changes Since Last Valuation:

The premium structure was changed from a 2-tier basis where premiums are set for single and family coverage to a 4-tier basis where premiums are set for single, member plus spouse, member plus child or children, and member plus spouse and children.

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Statistical Section

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which covers Pension Plan and Postemployment Healthcare Plans, including 401(h) and 115 subtrusts. This section also provides a multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the Plan's net assets, benefits, refunds, contribution rates, and different types of retirement benefits. The financial and operating trend information is located on the following pages.

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2014
and June 30, 2013

Statistical Review

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2005-2014 *(In Thousands)*
DEFINED BENEFIT PENSION PLAN (Schedule 1a)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additions										
Employee contributions	$ 16,240	$ 16,432	$ 16,050	$ 19,210	$ 20,323	$ 20,097	$ 29,629	$ 19,345	$ 20,227	$ 21,115
Employer contributions	41,835	43,473	46,625	56,372	53,103	52,315	77,918	121,009	105,234	123,583
Investment income / (loss)*	202,320	230,225	440,999	(153,711)	(469,235)	314,453	396,377	(34,341)	248,725	404,978
Total additions to plan net position	**260,395**	**290,130**	**503,674**	**(78,129)**	**(395,809)**	**386,865**	**503,924**	**106,013**	**374,186**	**549,676**
Deductions										
Benefit payments	69,102	75,189	81,953	89,704	102,363	114,604	129,472	142,314	150,811	157,635
Death benefits	4,226	4,803	5,042	5,467	5,982	6,519	7,213	7,480	8,005	8,738
Refunds	426	144	210	168	363	196	435	1,926	886	1,024
Administrative expenses and other	1,617	2,171	2,206	2,670	2,669	2,955	3,127	3,556	3,423	3,631
Total deductions from plan net position	**75,371**	**82,307**	**89,411**	**98,009**	**111,377**	**124,274**	**140,247**	**155,276**	**163,125**	**171,028**
Change in Plan Net Position	**$ 185,024**	**$ 207,823**	**$ 414,263**	**$ (176,138)**	**$ (507,186)**	**$ 262,591**	**$ 363,677**	**$ (49,263)**	**$ 211,061**	**$ 378,648**

**Net of expenses*

POSTEMPLOYMENT HEALTHCARE PLANS (Schedule 1b)

	2005	2006	2007	2008	2009	2010	2011	2012
Additions								
Employee contributions	$ 5,673	$ 5,742	$ 7,989	$ 9,151	$ 9,218	$ 10,650	$ 11,229	$ 11,474
Employer contributions	6,418	6,529	9,082	10,618	9,888	11,284	17,001	21,205
Investment income /(loss)*	3,554	4,089	8,115	(3,029)	(9,800)	6,870	8,966	(805)
Total additions to plan net position	**15,645**	**16,360**	**25,186**	**16,740**	**9,306**	**28,804**	**37,196**	**31,874**
Deductions								
Healthcare insurance premiums	11,093	12,880	14,794	15,974	18,039	20,701	28,273	28,479
Administrative expenses and other	33	42	45	56	60	66	73	87
Total deductions from plan net position	**11,126**	**12,922**	**14,839**	**16,030**	**18,099**	**20,767**	**28,346**	**28,566**
Change in Plan Net Position	**$ 4,519**	**$ 3,438**	**$ 10,347**	**$ 710**	**$ (8,793)**	**$ 8,037**	**$ 8,850**	**$ 3,308**

**Net of expenses*

POSTEMPLOYMENT HEALTHCARE BENEFITS

	2013			2014		
	Postemployment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust	Postemployment Healthcare 401(h)	Police Department Healthcare Trust	Fire Department Healthcare Trust
Additions						
Employee contributions	$ 13,498			$ 15,674		
Employer contributions	-	11,074	4,734	-	11,712	5,555
Investment income	5,613	588	246	7,942	3,210	1,443
Total additions	**19,111**	**11,662**	**4,980**	**23,616**	**14,922**	**6,998**
Deductions						
Healthcare insurance premiums	23,934			22,510		
Administrative expenses and other	78	-	-	73	15	15
Total deductions	**24,012**	**-**	**-**	**22,583**	**15**	**15**
Change in Plan Net Position	**$ (4,901)**	**$ 11,662**	**$ 4,980**	**$ 1,033**	**$ 14,907**	**$ 6,983**

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*
PENSION BENEFITS (Schedule 2a)

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013	2014
Age and Service Benefits									
Retirees – service	$ 30,828	$ 34,772	$ 39,354	$ 49,004	$ 59,455	$ 68,780	$ 77,239	$ 80,902	$ 83,664
Retirees – deferred vested	892	946	1,030	1,337	1,481	1,948	2,184	2,522	2,873
Survivors – service	741	606	713	826	986	1,301	1,402	1,566	1,826
Survivors – deferred vested	22	23	30	33	32	51	59	60	62
Death in Service Benefits	1,031	1,093	1,121	1,193	1,155	1,246	1,366	1,502	1,396
Disability Benefits									
Retirees – duty	41,134	43,713	46,654	49,100	51,218	55,998	59,108	63,410	66,865
Retirees – non-duty	610	646	697	698	680	674	770	748	903
Survivors – duty	2,876	3,184	3,459	3,784	3,634	3,888	4,328	4,587	5,022
Survivors – non-duty	133	135	144	146	136	124	266	265	274
Ex-Spouse Benefits	1,725	1,877	1,969	2,224	2,346	2,675	3,072	3,254	3,488
Total Benefits	**$ 79,992**	**$ 86,995**	**$ 95,171**	**$ 108,345**	**$ 121,123**	**$ 136,685**	**$ 149,794**	**$ 158,816**	**$ 166,373**
Type of Refund									
Separation	$ 144	$ 210	$ 168	$ 363	$ 196	$ 435	$ 1,926	$ 886	$ 1,024
Total Refunds	**$ 144**	**$ 210**	**$ 168**	**$ 363**	**$ 196**	**$ 435**	**$ 1,926**	**$ 886**	**$ 1,024**

Fiscal Year 2004-05 data not available due to system limitations.

Statistical Review *(Continued)*

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)* POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2006	2007	2008	2009	2010	2011	2012	2013	2014
Age and Service Benefits									
Retirees – Service									
Medical	$ 3,871	$ 4,750	$ 5,366	$ 6,843	$ 8,274	$ 9,468	$ 10,361	$ 10,090	$ 8,318
Dental	492	550	589	684	855	968	1,031	1,013	1,005
*Retirees – Deferred Vested**									
Medical	119	131	137	146	180	236	250	264	245
Dental	15	16	17	17	21	26	27	29	31
Survivors – Service									
Medical	78	76	89	110	165	229	214	231	205
Dental	23	20	21	19	31	41	42	44	33
*Survivors – Deferred Vested**									
Medical	4	3	1	-	-	11	10	11	9
Dental	1	1	-	1	1	3	3	2	2
Death in Service Benefits									
Medical	165	186	190	208	213	252	(38)*	243	170
Dental	35	36	34	33	37	42	59	41	28
Disability Benefits									
Retirees – Duty									
Medical	6,503	7,324	7,757	8,177	8,897	9,852	9,604	9,673	7,794
Dental	854	881	885	856	977	1,068	1,043	1,038	993
Retirees – Non-Duty									
Medical	147	162	173	172	199	201	221	206	192
Dental	21	21	22	21	26	25	25	23	22
Survivors – Duty									
Medical	408	483	527	603	643	715	667	650	560
Dental	118	127	137	119	154	169	159	152	105
Survivors – Non-Duty									
Medical	19	20	22	24	24	21	40	41	31
Dental	7	7	7	6	7	7	11	11	8
Implicit Subsidy Medical						4,939	4,750	172	2,759
Total Benefits	**$ 12,880**	**$ 14,794**	**$ 15,974**	**$ 18,039**	**$ 20,701**	**$ 28,273**	**$ 28,479**	**$ 23,934**	**$ 22,510**

** Amount includes credits from the State of California for medical benefits to the surviving spouse and family of sworn officers that died in the line of duty.*
Fiscal Year 2004-05 data not available due to system limitations.

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2005-2014 (Schedule 3)

	Police Department Rate				Fire Department Rate	
	Tier 1		Tier 2			
Fiscal Year	Employee Rate (%)	Employer Rate (%)	Employee Rate (%)	Employer Rate (%)	Employee Rate (%)	Employer Rate (%)
2004-05	11.16%	24.59%			11.16%	24.59%
2005-06	11.16	25.04			11.16	25.04
2006-07*	11.67	28.51			11.26	25.22
2007-08	11.67	28.90			11.26	25.61
2008-09	11.96	25.80			12.40	28.31
2009-10	12.96	26.89			12.40	28.31
2010-11	15.57	44.58			13.70	44.16
2011-12	17.47	56.90			15.62	56.32
2012-13	19.39	65.53			17.32	65.05
2013-14	21.15%	75.63%	20.49%	21.29%	19.07%	74.75%

**Special rate change effective 12/17/2006*

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2014

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement* 1	2	3	4	5	6	7	8	Option Selected** Unmodified	Option 1	Option 2	Option 3	Total
$1 - 500	5	0	0	1	0	0	0	1	3	3	0	2	0	5
$501 - 1000	27	0	0	0	0	1	6	3	17	13	5	6	3	27
$1001 - 1500	45	0	0	0	0	6	4	5	30	25	0	17	3	45
$1501 - 2000	65	1	0	3	0	15	13	7	26	30	1	29	5	65
$2001 - 2500	77	15	0	3	2	11	19	7	20	49	0	28	0	77
$2501 - 3000	99	25	0	1	3	20	24	9	17	57	1	40	1	99
$3001 - 3500	86	23	0	0	2	12	33	3	13	53	1	31	1	86
$3501 - 4000	94	55	1	2	4	4	19	4	5	58	7	27	2	94
$4001 - 4500	72	42	2	7	7	4	4	2	4	46	5	15	6	72
$4501 - 5000	109	65	3	0	20	1	13	2	5	66	2	29	12	109
$5001 - 5500	135	94	1	2	28	1	8	1	0	69	9	42	15	135
$5501 - 6000	104	57	2	1	38	0	4	1	1	63	8	23	10	104
$6001 - 6500	112	55	1	0	46	3	5	1	1	65	6	25	16	112
$6501 - 7000	131	62	0	0	65	2	1	0	1	84	4	28	15	131
$7001 - 7500	135	62	1	0	72	0	0	0	0	90	10	20	15	135
$7501 - 8000	113	40	3	1	69	0	0	0	0	84	5	13	11	113
$8001 - 8500	112	40	1	0	68	0	1	2	0	67	2	26	17	112
$8501 - 9000	101	46	0	0	53	0	0	2	0	58	8	17	18	101
$9001 - 9500	95	25	0	0	70	0	0	0	0	57	5	19	14	95
$9501 - 10000	102	44	0	0	57	0	0	1	0	64	6	16	16	102
$10001 - 10500	73	28	0	0	43	0	1	1	0	38	6	15	14	73
$10501 - 11000	73	29	0	0	42	0	0	2	0	47	2	15	9	73
Over $11000	172	48	3	0	117	0	0	4	0	112	15	13	32	172
TOTAL	**2,137**	**856**	**18**	**21**	**806**	**80**	**155**	**58**	**143**	**1,298**	**108**	**496**	**235**	**2,137**

***Retirement Codes**

1 Service Connected Disability
2 Early Service
3 Non-Service Connected Disability
4 Service
5 Survivor (survivor of active employee)
6 Continuance (survivor of retired employee)
7 Deferred Vested
8 Ex-Spouse

****Option Descriptions**

Unmodified — Unmodified Joint & Survivorship (standard default for married)
1 — Contingent Joint & Survivorship (increased percentage to survivor/reduce pension to member)
2 — Unmodified/No Survivor (standard default for unmarried)
3 — Joint & Survivorship Pop-Up (same as option 1 but if spouse predeceases member, pension goes back to original pension calculation)

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2014

Amount Monthly Benefit	Type of Subsidy: Health	Dental
Ineligible/Deferred	285	216
$1 - 100	0	477
$101 - 250	0	1,444
$251 - 500	508	0
$501 - 1,000	960	0
$1,001 - 1,250	384	0
TOTAL	**2,137**	**2,137**

Source: Pension Administration System

Retired Members by Type of Benefit

PENSION BENEFITS BY FAMILY UNIT

As of June 30, 2014

		Type of Retirement*							
Monthly Benefit Amount	Number of Family Units	1	2	3	4	5	6	7	8
$0 - 500	0	7	0	5	0	0	0	4	0
$501 - 1000	2	33	0	1	2	1	1	2	3
$1001 - 1500	3	32	0	2	1	2	1	11	5
$1501 - 2000	25	49	0	1	3	1	24	13	13
$2001 - 2500	32	60	0	2	4	2	30	5	8
$2501 - 3000	43	53	1	2	13	9	34	3	6
$3001 - 3500	42	74	1	0	38	4	38	4	1
$3501 - 4000	22	62	3	2	54	3	19	2	3
$4001 - 4500	8	81	0	3	62	1	7	1	1
$4501 - 5000	12	96	3	3	44	1	11	1	0
$5001 - 5500	10	42	1	0	41	3	7	0	0
$5501 - 6000	3	36	1	0	39	0	3	2	0
$6001 - 6500	8	40	0	0	57	2	6	0	0
$6501 - 7000	3	42	1	0	66	1	2	1	0
$7001 - 7500	0	40	3	0	64	0	0	2	0
$7501 - 8000	4	32	1	0	70	1	3	1	0
$8001 - 8500	5	18	0	0	55	1	4	1	0
$8501 - 9000	0	28	0	0	46	0	0	1	0
$9001 - 9500	0	12	0	0	43	0	0	0	0
$9501 - 10000	0	12	1	0	27	0	0	0	0
$10001 - 10500	1	13	0	0	25	0	1	2	0
$10501 - 11000	0	5	2	0	14	0	0	1	0
Over $11000	0	6	0	0	41	0	0	2	0
TOTAL	**223**	**873**	**18**	**21**	**809**	**32**	**191**	**59**	**40**

***Retirement Codes**

1 *Service Connected Disability*
2 *Early Service*
3 *Non-Service Connected Disability*
4 *Service*
5 *Survivor (survivor of active employee)*
6 *Continuance (survivor of retired employee)*
7 *Deferred Vested*
8 *Ex-Spouse*

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2014

		Years of Service Credit						
Time Periods		**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
As of June 30, 2014	Average monthly benefit*	$ 4,060	$ 3,383	$ 3,904	$ 4,897	$ 6,763	$ 8,671	$ 9,392
	Average final average salary**	$ 4,166	$ 4,097	$ 6,123	$ 7,384	$ 7,846	$ 7,637	$ 7,151
	Number of retired members***	23	47	103	132	365	755	145
	Average monthly benefit* (No FAS)	$3,976	$ 1,876	$ 1,479	$ 2,921	$ 4,323	$ 6,688	$ 7,637
	Number of retired members***	1	3	4	9	32	115	25
As of June 30, 2013	Average monthly benefit*	$ 2,852	$ 3,187	$ 3,706	$ 4,725	$ 6,511	$ 8,399	$ 9,011
	Average final average salary**	$ 3,993	$ 3,758	$ 5,746	$ 6,988	$ 7,620	$ 7,552	$ 7,006
	Number of retired members***	11	47	98	125	344	755	150
	Average monthly benefit* (No FAS)	$ -	$ 1,822	$ 1,321	$ 3,233	$ 4,197	$ 6,486	$ 7,398
	Number of retired members***	-	3	5	11	32	117	27
As of June 30, 2012	Average monthly benefit (incl. COLA)	$ 2,304	$ 3,101	$ 3,395	$ 4,465	$6,248	$ 8,101	$ 8,676
	Average final average salary**	$ 1,540	$ 3,368	$ 4,931	$ 6,555	$ 7,431	$ 7,398	$ 6,940
	Number of retired members***	6	44	81	115	341	749	154
	Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,769	$1,282	$ 3,023	$ 4,075	$ 6,302	$ 7,020
	Number of retired members***	-	3	5	12	32	120	28
As of June 30, 2011	Average monthly benefit (incl. COLA)	$ 2,199	$ 3,028	$ 3,310	$ 4,509	$ 5,872	$ 8,035	$ 8,573
	Average final average salary**	$ 1,540	$ 3,402	$ 4,695	$ 6,818	$ 7,309	$ 8,344	$ 8,094
	Number of retired members***	6	44	74	102	278	714	157
	Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,688	$ 1,455	$ 2,989	$ 3,956	$ 6,051	$ 6,766
	Number of retired members***	0	3	5	12	33	124	30
As of June 30, 2010	Average monthly benefit (incl. COLA)	$ 2,152	$ 2,915	$ 3,184	$ 4,223	$ 5,372	$ 7,622	$ 8,242
	Average final average salary**	$ 1,585	$ 3,248	$ 4,532	$ 6,515	$ 6,599	$ 7,942	$ 7,938
	Number of retired members***	6	46	70	96	242	653	157
	Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,639	$ 1,419	$ 2,854	$ 3,779	$ 5,886	$ 6,570
	Number of retired members***	0	3	5	12	36	129	30
As of June 30, 2009	Average monthly benefit (incl. COLA)	$ 2,170	$ 2,779	$ 3,101	$ 3,937	$ 4,904	$ 7,158	$ 7,811
	Average final average salary**	$ 1,778	$ 3,087	$ 4,498	$ 6,066	$ 6,072	$ 7,492	$ 7,600
	Number of retired members***	7	46	68	86	220	575	153
	Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,591	$ 1,381	$ 2,712	$ 3,675	$ 5,710	$ 6,327
	Number of retired members***	0	3	5	13	36	132	32
As of June 30, 2008	Average monthly benefit (incl. COLA)	$ 2,120	$ 2,717	$ 3,068	$ 3,743	$ 4,563	$ 6,776	$ 7,319
	Average final average salary**	$ 1,778	$ 3,060	$ 4,097	$ 5,713	$ 5,644	$ 7,129	$ 7,147
	Number of retired members***	7	47	64	79	204	521	140
	Average monthly benefit (incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,549	$ 1,319	$ 2,642	$ 3,639	$ 5,560	$ 6,123
	Number of retired members***	0	3	5	13	36	134	32
As of June 30, 2007	Average monthly benefit*	$ 2,063	$ 2,618	$ 2,853	$ 3,576	$ 4,339	$ 6,461	$ 6,962
	Average final average salary**	$ 1,799	$ 3,023	$ 3,846	$ 5,567	$ 5,419	$ 6,924	$ 6,898
	Number of retired members***	7	47	62	79	195	492	134
	Average monthly benefit (for those whose FAS was unavailable)	$ -	$ 1,500	$ 1,239	$ 2,561	$ 3,526	$ 5,397	$ 5,938
	Number of retired members***	0	3	6	13	36	137	32
As of June 30, 2006	Average monthly benefit*	$ 889	$ 1,424	$ 1,822	$ 2,633	$ 3,073	$ 5,092	$ 5,411
	Average final average salary**	$ 1,778	$ 2,934	$ 3,716	$ 5,290	$ 5,164	$ 6,674	$ 6,725
	Number of retired members***	7	47	61	76	189	462	129
	Average monthly benefit (for those whose FAS was unavailable)	$ -	$ 414	$ 735	$ 1,741	$ 2,405	$ 3,835	$ 4,103
	Number of retired members***	0	3	6	14	36	137	32

* *Includes Cost of Living Increases*

** *Final Average Salary not available for those that retired prior to April 1998, except for service connected disability retirees. Those without Final Average Salary are not included in Average Monthly Benefit.*

*** *Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006.

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2014

		Years of Service Credit						
Time Periods		**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
As of June 30, 2014	Average health subsidy	$ 549	$ 779	$ 845	$ 779	$ 896	$879	$ 746
	Number of health participants*	19	44	87	121	384	843	166
	Average dental subsidy	$ 67	$ 97	$ 96	$ 97	$ 106	$ 106	$ 99
	Number of dental participants*	21	47	91	128	396	865	169
As of June 30, 2013	Average health subsidy	$ 519	$ 783	$ 769	$ 785	$ 924	$ 932	$ 844
	Number of health participants*	8	44	81	118	366	855	174
	Average dental subsidy	$ 84	$ 96	$ 85	$ 92	$ 101	$ 101	$ 102
	Number of dental participants*	9	47	86	124	375	872	177
As of June 30, 2012	Average health subsidy	$ 776	$ 850	$ 839	$ 865	$ 1,018	$ 1,055	$ 928
	Number of health participants*	6	42	66	110	357	850	177
	Average dental subsidy	$ 109	$ 106	$ 88	$ 97	$ 107	$ 108	$ 108
	Number of dental participants*	6	46	70	114	372	869	182
Period 7/1/2010 to 6/30/2011	Average health subsidy	$ 730	$ 918	$ 1,050	$ 1,019	$ 1,052	$ 1,086	$ 1,029
	Number of health participants*	6	40	59	96	273	709	29
	Average dental subsidy	$ 110	$ 110	$ 110	$ 110	$ 109	$ 109	$ 110
	Number of dental participants*	6	43	63	98	278	714	30
Period 7/1/2009 to 6/30/2010	Average health subsidy	$ 702	$ 853	$ 991	$ 951	$ 978	$ 1,023	$ 985
	Number of health participants*	6	42	56	91	236	649	157
	Average dental subsidy	$ 104	$ 104	$ 105	$ 104	$ 104	$ 104	$ 104
	Number of dental participants*	6	45	60	93	239	652	157
Period 7/1/2008 to 6/30/2009	Average health subsidy	$ 711	$ 807	$ 939	$ 898	$ 910	$ 963	$ 927
	Number of health participants*	7	42	56	82	216	572	153
	Average dental subsidy	$ 94	$ 94	$ 94	$ 94	$ 91	$ 94	$ 94
	Number of dental participants*	7	45	60	83	220	575	153
Period 7/1/2007 to 6/30/2008	Average health subsidy	$ 676	$ 778	$ 888	$ 866	$ 870	$ 916	$ 885
	Number of health participants*	7	45	58	82	234	516	139
	Average dental subsidy	$ 99	$ 99	$ 99	$ 98	$ 98	$ 98	$ 99
	Number of dental participants*	7	49	61	83	239	520	139
Period 7/1/2006 to 6/30/2007	Average health subsidy	$ 632	$ 736	$ 805	$ 813	$ 815	$ 861	$ 828
	Number of health participants*	7	45	57	82	225	487	134
	Average dental subsidy	$ 98	$ 98	$ 98	$ 96	$ 97	$ 97	$ 98
	Number of dental participants*	7	49	60	83	230	491	134
Period 7/1/2005 to 6/30/2006	Average health subsidy	$ 571	$ 662	$ 722	$ 735	$ 731	$ 772	$ 742
	Number of health participants*	7	45	56	79	216	453	129
	Average dental subsidy	$ 95	$ 96	$ 95	$ 94	$ 94	$ 95	$ 95
	Number of dental participants*	7	49	59	80	222	461	129

** Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006

Retirements During Fiscal Year 2013-2014

SERVICE RETIREMENTS

Police Department

ACOSTA, DANIEL G.
AVILA, ROBERT G.
BORGES, LOUIS M.
BUSTILLOS, STEVEN D.
DALEY, BRIAN P.
FERRANTE, BRIAN P.
FONTANILLA, RICARDO M.
FRANCO, BEATRIZ C.
GILLIES, PAUL E.
GONZALES, INGNACIO D.
GUTIERREZ, HECTOR C.
LINDEN, BRETT W.
LLOYD, MICHAEL D.
LOPEZ, ROBERT R.
MISHAGA, ALAN J.
MOODY, DAVID C.
NAKAO, CLIFFORD T.
PERRIER, DONALD E.
URRUTIA, PEDRO
VEGA, GUSTAVO
WILLIS, MARK C.

Fire Department

CUEVAS, EDUARDO A.
DEVINCENTIS, DIANE L.
GOLDSMITH, CHERYL
GUTIERRE, GILBERT J.
HOPPER, JOHN S.
KERNAN, BART E.
MAGALLON, ANTONIO F.
NAVY, ALEXANDER
VAN DE STAR, RAYMOND B.A.

EARLY RETIREMENTS

Police Department

CHAVEZ, GEORGE N.

Fire Department

SAUNDERS, EDWARD B.

DEFERRED VESTED RETIREMENTS

Police Department

CHRISTMAS, MELDA L.
URBAN, DIANE E.

Fire Department

NONE

SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department

ADAMO, COURTNEY D.
ALEXANDER, BRIAN E.
BALDWIN, MICHAEL F.
COMERFORD, PATRICK M.
DANIELS, RODNEY
DE LA CRUZ, José L.
GOMEZ, JAMES L.
GONZALEZ, JUAN G.
INMAN, CHRIS
KOTTO, FREDRICK S
MC CARRON JR.,GEORGE J.
MILLHONE, TRACEY R.
PRIETO, OMAR R.
SANCHEZ, EUGENE P.
SMITH, JEROME M.A.
WILLIAMS, ROBERT A.

Fire Department

BORDEN, TIM A.
ENGLER, LORIN T.

NON-SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department

WILLIAMS, MICHAEL D.

Fire Department

NONE

Deaths During Fiscal Year 2013-2014

DEATHS AFTER RETIREMENT

Police Department

BONDI, RONALD S.
HUNT, LYLE W.
LOWRY, MICHAEL P.
MC NAMARA, BRIAN M.
STENGEL, DAVID J,
STUEFLOTEN, LARRY N.

Fire Department

CIRAULO, JAMES P.
CLARK, RODNEY W.
COCILOVA, ROBERT J.
COTTLE, EDWARD M.
CRAWFORD, JAMES L.
EVANS I, HAROLD H.
GARCIA,SAMUEL M.
GOODRICH, LUKE H.
GREER, DON R.
NEIBAUR, RICHARD J.
REEK, ROBERT R.
RYAN, ELLSWORTH J.
RYDER, ROBERT J.
SALO, LARRY M.
SMITH, JAMES C.
TURNAGE, GORDON E.
VAN ETTEN, DAVID

DEATHS BEFORE RETIREMENT

Police Department

NONE

Fire Department

NONE

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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